

Company Registration No. 05445654

Simplyhealth Group Limited
Annual Report and Financial Statements
31 December 2021

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COMPANIES HOUSE

Simplyhealth

All together healthier

Improving access to healthcare

Making it easy...

For the many...

For the long term

WELCOME

Standing for a healthier world

The directors present their Strategic Report for the year ended 31 December 2021 for Simplyhealth Group Limited (the ‘Company’) and its subsidiary companies (together, ‘Simplyhealth’ or the ‘Simplyhealth Group’).

Business model

We are a UK Group that exists to improve access to healthcare for our millions of customers, and for society at large. For nearly 150 years our health plans have supported individuals, their families and their businesses with their everyday health concerns, as we believe that no one should go without the healthcare support they need. As a company limited by guarantee, we exist for the benefit of our customers who are our members, both now and in the future. We also support communities by donating a proportion of our profits every year to good causes.

Our Purpose

Simplyhealth’s purpose (‘Our Purpose’) is to improve access to healthcare for the many.

The health of our business underpins our ability to help improve the health of individuals, in turn supporting strong communities and ultimately benefitting society as a whole – an ‘All Together Healthier’ approach.

Read more on **pages 16-31**

Find out more about us on our webpage [simplyhealth.co.uk](https://www.simplyhealth.co.uk)

OUR BUSINESS UNITS

Health Care Insurance

We provide healthcare insurance to individuals either directly ('Consumers'), through their employer ('Corporate Clients') or via dental practices. Our solutions provide cover both for everyday healthcare costs, including primary care and outpatient services, in addition to accident and emergency dental cover.

89.2% of revenue

977,000 customers

2.4m claims

Administration of Dental Plans

We provide dentists and their patients with products and services supporting the provision and funding of dental services.

10.4% of revenue

1,378,000 customers

Other Businesses

We continue to seek and evolve our provision of healthcare solutions through the innovation of new products, and partnerships with healthcare providers.

0.4% of revenue

Average no of partnerships 9

Our insurance plans are underwritten by Simplyhealth Access and regulated by the Prudential Regulation Authority. Products sold via our Denplan operation provide administration of payment plans, support, guidance and advice to member dentists. We also sell Corporate Dental insurance solutions, underwritten by Simplyhealth Access.

Simplyhealth Group is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority.

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Company Information

Simplyhealth Group Limited (05445654) is a private company limited by guarantee, registered in England and Wales.

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CHAIRMAN'S WELCOME

Focusing on a healthy future

Gil Baldwin

As I reflect on 2021 and look ahead to 2022, I am minded of the words I wrote last year when we were in the midst of a lockdown. I hoped then that we would have been able to return to some level of normality.

Notwithstanding new variants, I do think we have adapted and are starting to be able to live with COVID-19. In a sense, we have accepted a 'new normal' and found a way to live our lives despite the difficult circumstances.

Unfortunately, at the time of writing, we know there will continue to be many challenges for those affected by the conflict taking place in Ukraine. As a purpose-led organisation, we feel it is our duty to support the people of Ukraine in a meaningful way. We have pledged to donate £150,000 to the Disasters Emergency Committee Ukraine Humanitarian Appeal by matching donations made by our customers, colleagues, friends and family. To help create safe spaces for refugees in the UK, and offset the costs of doing so, we are offering £1,000 to any colleague who opens their home to refugees. We are also offering emotional support facilitated by clinical supervisors to colleagues affected by the conflict. As a business we are making every effort to ensure we are not inadvertently supporting individuals or organisations which ultimately repatriate their profits to Russia, or who are already sanctioned by the Government.

My thoughts are with all those individuals, families and communities impacted by this devastating event, and I hope a peaceful resolution can be found swiftly.

For all of us in Simplyhealth, we know that our health and being able to access healthcare services has never been more important. With this comes both the challenge of trying to get help from a system designed for another time, but also the very real possibility for genuine innovation in the way our healthcare services are delivered. This is much needed; the UK has the largest waiting list for operations since records began, and it is estimated that 10,000 people are needlessly in hospital beds for the lack of ability to transition to their homes.

Simplyhealth has a large part to play in the necessary transformation of our National Health Service ('NHS') by offering new services, delivered in new ways, to support our public health workers and of course, provide for our customers. Our focus continues to be on bringing our digital estate into this new world; equally we are seeking out new ways of providing the services people want and need, as well as finding additional ways of supporting those who want to access them through innovative funding mechanisms.

For Simplyhealth, 2021 has been a year of change.

2021 was a year of change, and not just from a digital infrastructure perspective. In April, the board of directors of the Company (the 'Board') and I said farewell to Romana Abdin our Chief Executive Officer (CEO) for eight years and welcomed Dr Sneh Khemka as her successor. Prior to joining Simplyhealth, Sneh ran the global population health business for health insurer Aetna International, part of the US-based CVS Health company. In addition, he is a general and ophthalmic surgeon and a specialist advisor to the healthcare division of the World Economic Forum. His detailed and in-depth medical knowledge is a welcome addition to our Board and business in general.

We also concentrated on improving our governance and control frameworks, so I was delighted to welcome three new members to the Simplyhealth Board: Duane Lawrence and Martin Stead, both non-executive directors, and Nicholas Potter, Simplyhealth's new Chief Financial Officer. Duane, Martin and Nicholas are hugely experienced, well-respected professionals in the fields of digital transformation and health technologies and have added a new dimension to our Board in supporting the development and delivery of our strategy.

Improving access to healthcare for the many: our new business strategy and values

I have previously spoken about the joy of leading an organisation whose aim is to look after its customers and deliver on its purpose. Our new strategy of accelerating our transformation so that we can deliver health services people want and need is well underway, and further information on this can be found in Sneh's report.

But to make this a reality, we need to do more than invest in our digital infrastructure. We must challenge the way we deliver our services and our way of doing things as a company; digital first but always able to keep our personal touch. We need to deliver services in the way our customers expect and want.

To make this change, it will take every single one of us across Simplyhealth to embrace the change we see happening across our society. We need to be brave, creative, curious, and continually questioning ourselves, and each other, about whether what we do now is of value. I don't doubt we will find new and better ways to better meet our customers' needs.

Underpinning this philosophy is a new set of company values, developed in partnership with our colleagues in the organisation:

We will:

- act with **courage and curiosity**, so we can unlock opportunities to increase the help we offer to our customers, colleagues and communities;
- operate with **trust and kindness**, working alongside customers, delivering what they need to live their best lives, as well as supporting colleagues as they strive to deliver on their potential; and
- bring our passion for **all together healthier** to life, focusing on self-care and nurturing relationships. And we will ensure we are a strong team – one that's able to build healthier lives for the many.

I think this coming year will be both challenging and rewarding as we see our efforts starting to blossom. I know my colleagues at Simplyhealth understand and share in our collective goal and desire to make a difference for our customers. I very much look forward to reporting on our progress at the same time next year.

In closing, I would like to say thank you to you, our customers, members and colleagues for your loyalty and trust in Simplyhealth to be the partner for you all in your journey through health and life.

In these continuing uncertain times please take care of yourselves, and each other.



Gil Baldwin MBE
Chairman

Messages from our new non-executive directors

"The stark pressures placed on the healthcare system in the past two years have accelerated innovation in ways unseen throughout my career. I am eager to bring my experience guiding agile healthtech companies to the storied table of Simplyhealth. With improved patient outcomes as its focus, this is a company that will make real difference in the lives of its customers. I am excited to join the Board as a non-executive director and to be part of its future."

Duane Lawrence
Non-executive director

"In the midst of the COVID-19 pandemic, Simplyhealth's purpose – to provide access to better healthcare for those who cannot otherwise afford it – is as relevant today as it was 150 years ago when the Company was founded. I look forward to supporting the Company with its innovation and growth plans as a non-executive director."

Martin Stead
Non-executive director

CEO'S STATEMENT

Reflections of the new CEO

Sneh Khemka

After nine months in my role as CEO of Simplyhealth, I am able to reflect on my time in this wonderful organisation, why I joined and what I think we can achieve together.

So, with my experience as a surgeon and medical consultant and some years in health-related organisations, I have to say the very first thing that attracted me to Simplyhealth was its unequivocal focus on its purpose to improve access to healthcare for the many. The business will celebrate its 150th anniversary in 2022. That is a phenomenal achievement for any business, not least a business that has dedicated itself to facilitating access to healthcare for those who may otherwise find it challenging to do so. Simplyhealth was established before the NHS was born and has been working alongside ever since. It is that strong sense of purpose and dedication to the communities of the UK that made this role so attractive.

Simplyhealth Group is structured in a way that enables us to invest financial gains back into the development of our business for the benefit of our customers. I feel very proud to have a strong, experienced and supportive Board that is helping us to unlock a new future.

I was also struck by the sheer potential that Simplyhealth has to play an even more significant role in UK healthcare. At a time when the NHS continues to serve its country so well in urgent and emergency care, but is struggling to fund the breadth of healthcare services required, and at a time when healthcare is at the forefront of everyone's mind, Simplyhealth has not only an opportunity but also a duty to support the NHS in a myriad of ways. The first, for me, is by providing people with timely access to primary care and outpatient services across the UK, something which we already do through our products and services.

Simplyhealth has been successfully providing access to healthcare services throughout its history, most recently in the form of cash plans and our Denplan business. This rich heritage, experience and data provide a robust platform for growth and innovation, which I believe Simplyhealth can leverage for the benefit of the UK's healthcare needs in the future.

It is the combination of all these factors that led me to positively accept the chance to lead Simplyhealth into its next chapter.

Business performance

COVID-19 has had unusual and unpredictable impacts on business performance across so many industries during the last two years, and Simplyhealth is no different.

In 2020 we saw a comprehensive profit (profit after tax) of £13.0m, which was driven by the first lockdown and the consequential reduction in claims volumes. In 2021, our continuing commitment to our customers for both the short and long term led to decisions and investments set out in detail later in this report, which together with an increase in claim volumes compared to 2020, have impacted our financial performance this year, resulting in a loss of £12.9m.

This loss was, in part, entirely conscious as we decided to live by Our Purpose and support customers and community with extra help during the pandemic. We made two material financial decisions

in 2021; firstly we spent an additional £4.2m on antigen testing and secondly, in recognition of the 2020 performance, we are returning £9m of premium rebates to eligible customers, which will be distributed in 2022. This forms part of a programme of £18m returned to customers via various initiatives over two years of the pandemic, including payment holidays, price freezes for policyholders, and free PPE to help keep dentists running, to mention just a few.

During this most challenging year we also remained focused on strengthening our infrastructure and ensuring the long term sustainability of the business. We invested £4.3m of project spend for our new insurance IT platform, with implementation and costs continuing into 2022. We have maintained a strong solvency position of 338.5% at the end of the year.

Simplyhealth's next chapter

During my first nine months, I have spent some time really getting to know the people in the business that have been dedicating themselves to delivering on Our Purpose for so many years, as well as diving deeply into the mechanics of our operations, products and services. That understanding has enabled the recent design and launch of a new strategy and plan for the coming years.

The world around us has gone digital and automated and we are seeing a new breed of customers with different wants and needs. What our NHS can provide is changing, and there are gaps opening up in the provision of everyday healthcare to UK citizens.

Against the backdrop of these tumultuous changes, and with their acceleration partly driven by the pandemic, the time has come for our business to firmly embrace the new world and to move in a new direction.

While cashplans remain very relevant to a broad customer base, we are working towards a new set of products which provide even better coverage in the out-patient space, allowing access to services ranging from hospital visits to diagnostics, physiotherapy to mental health support.

We are revising our products to bring in new benefits which meet the needs of a new generation of consumers.

Our Denplan business has gone from strength to strength, and we are looking to capitalise on that growth by not only enhancing the experience our end customer receives, but also by supporting our dentists with better risk management, clinical governance and continuous professional development.

We have taken bold steps to move into the digital arena, and of note our SimplyPlan App, which allows customers to manage their policy and claims, has been downloaded over 30,000 times since its launch in March of this year. We are also building an ecosystem of partners who offer digital health services, ranging from wellness to disease management, so that we can deliver a full offering of solutions to our customers in the most convenient and accessible way.

We have made significant, multi-million pound, investments into our technology infrastructure, which will allow us to move to a significantly lower cost and automated claims processing capability, but never at the cost of the excellent, human, customer service that I know our clients treasure.

We have started Simplyhealth Ventures, which will allow us to do two things. First is to seed invest and rapidly grow our very own new business lines, which will be adjacent to our core offering. Second is to invest capital into the world of new, digital, healthcare organisations started by others, so that we can deliver faster and better on Our Purpose – to improve access to healthcare for the many. Through these investments, not only do we hope to gain significant capital return, but also enhance our core customer offerings with a fully modular set of health solutions.

We wish to support our NHS by alleviating some of the pressures it finds itself under, especially in times of COVID-19. Our solution for this is to give people the option to access alternative sources of care through affordable, equitable and immediately available services in the private healthcare arena.

A bigger role to play

I am proud to be able to play a part in influencing the shape of healthcare provision in the UK and the positive effect that can have on our communities. Community is such a key driving force for Simplyhealth. We take our role very seriously with many limbs to our community and environmental activities, and we are justifiably proud of our Environmental, Social and Governance ('ESG') progress to date.

Simplyhealth achieved carbon neutrality in March 2020 and Carbon Neutral Plus status in March 2021, the result of a strong commitment and plan over many years. We are also working closely with our suppliers to support them on their ESG journey. Our societal impact stretches deeply into communities across the UK through our continued commitment to charitable giving. This year we have donated more than £0.6m to health and sport related charities to help improve and motivate improved long-term health outcomes in the UK, and have ring-fenced a further £0.3m solely for the use of charitable activities.

We also strongly encourage our Simplyhealth teams to engage meaningfully with their local communities and support them with dedicated programmes offering time and funding. Having successfully transitioned our teams from office-based to home working routines, we have stayed close to our people, providing a whole programme of mental, physical, and social support activities. We have developed and launched SimplyLearn, a new learning management system to offer a full suite of learning and development opportunities in a fully digital format.

We have proudly submitted an application for BCorp status because it aligns so closely to Our Purpose and our ambitions in an ESG and broader strategic context. We have set ourselves challenging targets with clear KPIs to ensure we continue to positively impact on the environment, our communities and society in general.

Further details of the above can be found in the Sustainability section of this report.

I would also like to reiterate Gil's comments about the situation in Ukraine. As I write this, it is unclear how or when matters will be resolved; what is clear however is that my personal sympathies are very much with all the Ukrainian people. From a Simplyhealth perspective, I am proud that we have acted true to our purpose, and that we are providing practical support to the Ukrainian people in their time of need. In line with many other UK businesses, we will continue to monitor the situation and support where we can.

Culture

The final achievement I would like to highlight is the development of a new culture and set of values, as set out in the Chairman's welcome, to support the strategy and plan. Our new culture and values framework links everything together to help us become the business we want to be, and to have the impact we believe we can. We are starting from a very strong base with our existing culture, which has evolved over our long history. We shall build upon that to enable us to operate at our best as we transform into an agile and digitally led organisation operating at the forefront of dynamic, tech-enabled healthcare in the UK.

Looking forward

As we look forward to a new year of transformational activity, I feel honoured to be leading this business with so much heritage, momentum and opportunity. We have an ambitious strategy, with more details set out on pages 6 and 7 and a clear plan supported by a new cultural framework. I am confident in our direction and in the team to deliver on Our Purpose and to create a new future for Simplyhealth.



Dr Sneh Khemka
Group CEO, Simplyhealth

BUSINESS MODEL AND STRATEGY

Purpose-driven strategy

Simplyhealth's strategic focus is aligned to Our Purpose – improving access to healthcare for the many. We will help people to access services for everyday health issues and in so doing helping to take pressure off the NHS. Our strategy continues to be driven by our heritage and our deep-rooted purpose, whilst also reflecting the changing healthcare environment in which we are operating.

A new consumer mindset in healthcare

As set out in the CEO statement, we recognise that many in society have changed their view about healthcare, and how they choose to interact with it. Rather than being passive recipients of care, they are now active participants, with a more digital and demanding mindset.

That is an advantage in that it offers companies like ours opportunities to bring healthcare solutions to customers in a more convenient way. By offering services that help to keep people leading their best lives, help to predict and prevent disease, help to access the very best in care, and help to manage long-term conditions, we have a real chance of getting into the heart of healthcare. And we wish to offer it digitally where possible, physically where necessary, meeting the new consumer mindset we see throughout society.

Our strategy

Our strategy is focused on driving further growth in our core business units through enhanced products, features and digital solutions.

At the same time, we will be building a strong platform to enable us to deliver innovation to the UK health market. We will achieve this through development of our core health cash plan and Denplan propositions, which will be supported by investment in a new wholesale IT infrastructure platform. In addition, we have ringfenced significant capital investment to drive innovation through a new entity to be formed in 2022 within the Simplyhealth Group, Simplyhealth Ventures Limited.

Growth strategy for core channels

Simplyhealth continues to be the clear market leader in our core strategic areas of health cash plans and dental payment plans. We remain steadfast that there is significant demand and potential for growth in the provision of cover for the outpatient services provided for by these solutions.

Corporate health cash plans continue to meet the growing need for employers to provide adequate health cover for their employees. Health cash plans offer comprehensive access to healthcare outpatient services at an accessible price point for employers. Simplyhealth has built a very healthy portfolio of long-standing Corporate Clients over many years, which continues to grow. For many societal reasons, the expectation of employees for their employer to provide healthcare solutions is growing, and Simplyhealth is particularly well positioned to meet that growing demand. This is especially true in the small to medium enterprise (SME) market, where HR and employee welfare teams are much smaller and find it difficult to identify and source the right healthcare solutions for their people. Health cash plans offer an affordable alternative to traditional Private Medical Insurance (PMI) products, which are fast becoming untenable for many businesses. We will focus on evolving our health cash plan solutions for our Corporate Clients to ensure they continue to provide access to the healthcare our clients and customers require, supported by enhanced digital tools and access points for all.

As our own health and the health of our families has shifted even more to the forefront of minds in recent years, there is a rich opportunity for Simplyhealth to promote the benefits of our individual health cash plan at a very accessible price point and with the benefit of access to healthcare services that have recently become more difficult to secure on the NHS. For example, we have seen a 62% growth in usage of our digital 24/7 GP service from 2020 to 2021. We are committed to providing access to healthcare for the many and are focused on delivering new solutions to individuals to meet evolving healthcare needs at an affordable price point.

Since being founded by two dentists in 1986, Denplan has continued to be the market-leading provider of dental payment plans for UK dental practices. We now provide services for almost 5,000 high street dentists and around 40% of the high street practices undertaking private dental treatment. The recent pandemic has very clearly demonstrated the benefits of patients being on a regular payment plan to dentists working in the private sphere. This combined with the additional support and new services we have provided for patients during the pandemic, will stand us in good stead at a time where private dentistry continues to grow and the NHS environment becomes more complex.

Investment in IT infrastructure, data and digitisation

Underpinning our strategy to help more people access healthcare is investment in a new technology platform that will provide the flexibility to deliver a new generation of more personalised, digital and affordable healthcare solutions. Alongside this, will be a significant investment in our data management capability, allowing us to develop more relevant healthcare solutions and better customer experiences.

Data comes from a plethora of sources in healthcare, from what our shopping and eating habits are, to wellness services we access, to NHS records of care, to pharmacy prescriptions and wider. We have initiated a programme to be able to harness that data, keep it secure, and combine it with the experiences we see of our customers, to allow us a unique and powerful insight into people's health. Through ethical powerful data analysis we aim to use that data to offer customers tailored products and services that they will trust and have a timely and meaningful positive impact on their health.

Summary

We are confident that we are well positioned for a successful 2022 with a new CEO and leadership team in place, a new strategy supported by a clear plan and a cultural transformation programme to drive the change required.

We will continue to digitise the business, building on the successful launch of our SimplyConsult and SimplyPlan apps. SimplyConsult enables customers to access our online GP and online physio services, whilst the SimplyPlan app enables customers to quickly and easily claim back the cost of everyday health services. These developments deliver benefits from customer experience, operational efficiency and environmental perspectives, and form the start of a new innovative programme of health solutions from Simplyhealth.

Further, we are working with an ecosystem of digital healthcare providers, and we aim to be able to choose from the best of these in an increasingly busy market, offering them to customers when and where they most need them.

Culture

It is the culture of an organisation that really defines its sustained success, and we have enjoyed an excellent culture for many years, which has delivered outstanding customer service. At times, however, this has come at the expense of good commercial outcomes, and now is the time to redress that imbalance. Both our Chairman and our CEO have already highlighted some of the aspects of the cultural transformation we are undertaking at Simplyhealth, but the focus is to move to an agile, ambitious, innovative and commercially disciplined culture, that always keeps the customer very firmly at the centre.

We recognise that this is a multi-year change, but commencing now is the right time to align with the refreshed strategy and plan, and will underpin the significant transformation we wish to undertake in the business. At Simplyhealth it is imperative that the culture of our organisation is driven by, and reflects, Our Purpose and builds for a sustainable future.

“Simplyhealth remains the clear market leader in our core strategic areas of health cash plans and dental payment plans.”

BUSINESS REVIEW

Business performance

CFO reflections

Since joining Simplyhealth in 2021, I have been heartened to observe a clear, customer centric culture that is palpable throughout the organisation. The results of our continued pursuit of excellence in customer service and outstanding product value can be seen in our strong Customer Satisfaction and Trustpilot scores.

As a CFO I understand that the future success of Simplyhealth is predicated on consistently delivering for our customers at their point of need, whatever segment or sector they sit in. For us this means being there for our customers when they need us. The improvements in our claims service through the development of the SimplyPlan App, where claims are submitted in a simple, fast, efficient manner any time of the day or night, demonstrates that we understand that we must operate in our customers' world and timeframes, not just our own.

As has been outlined earlier by Sneh in his CEO statement, and through our purpose-driven strategy, it is essential we continue to deliver great customer service through a multi-channel approach; serving all customers across all demographics. We understand of course that this is a continuous development cycle, and we will continue to build services that allow our customers easier access to their products at times that are convenient for them.

As I write, it appears the pandemic may be moving to a stage where we will need to live with COVID-19 and its health impacts, but without the significant impacts on our way of life that we have all experienced over the past couple of years. As such, the business took the decision to review any surplus profits made during the pandemic to ensure our customers

received fair value from their policies over the period. During the pandemic Simplyhealth has supported customers through a variety of measures totalling £9m. However, in addition to this sum, an analysis of the impact of lockdown on the availability of healthcare services will allow us to return a further £9m, by way of premiums to eligible consumer customers. This return of value to our customers is due to take place over the course of 2022.

Despite the pandemic, we are seeking to develop propositions that exceed our customers' expectations and meet their changing needs. Within the dental sector, Denplan+ was developed in collaboration with our dentists to strengthen several features of the product, such as complimentary compliance checks, and enhanced staff benefits including 24/7 GP access, while also ensuring dental practice cash flow was maintained. This core element of the Denplan proposition was seen by our dentist partners as fundamental to the financial resilience of their practices, clearly evidenced during the pandemic when dental visits were restricted. In the coming year we will focus on the individual consumer, and how the current cash plan and dental offerings can be developed to better meet their healthcare needs.

For me Simplyhealth has demonstrated a resilient and commercial mindset throughout the year. However, this commercialism is complemented with a true social conscience exemplified by our charitable giving activities, focus on sustainability and the engagement and development of our people across the organisation.

I have enjoyed a wonderful first six months with the Company and I hope the coming year is a healthy and profitable one for Simplyhealth and all our customers.

Nicholas Potter

Nicholas Potter
Chief Financial Officer

Business performance

Despite the continuing disruption brought about by the pandemic, Simplyhealth was able to continue its journey of transformation during 2021. Focus remained on several key initiatives:

- Continuing excellent customer service supporting customer retention and advocacy
- Delivering value-based propositions addressing the core needs of our customer segments
- Accelerating Denplan's growth through our dental partners
- Optimising our cost base, whilst transforming the business through digital first investment
- Establishing a new and innovative route to unlock innovation in the healthtech space

Since 2020 Simplyhealth has acted to support its customers during a period of hardship, caused by the effects of the pandemic, with payment holidays, price freezes, free access to virtual services for NHS workers, access to antigen testing and the provision of £2m PPE for dentists. Our decision to return value includes a pledge to make premium refunds totalling £9m to eligible consumer customers who faced difficulties accessing healthcare providers during the pandemic lockdown in 2020.

With the ongoing pandemic, health continues to be at the forefront of many people's minds, and we have seen demand for our products grow, resulting in net positive growth of members of 20,000 across all channels. Earned premium was relatively stable after allowing for the return of premiums to eligible consumer customers.

While claims volumes remained suppressed this was offset by significant claims inflation in the market primarily driven by additional costs faced by providers operating under tighter, COVID-related conditions. This claims

inflation was particularly prevalent in the dental market where average claims costs were 21% higher than before the pandemic.

Across our portfolio we continued to focus on delivering value to our customers through appropriately designed and priced products. At the end of 2020 we decided to hold prices on our Consumer book until June 2021, absorbing the claims inflation, and balancing some of the reduced claims volumes over 2020 and 2021. This decision has impacted our average Claims Loss Ratio (CLR) which was 72.0% (CLR 2020 – 55.0%; 2019 – 72.7%). As we move to a ‘new normal’ our pricing strategy will evolve to ensure that products and segments are priced appropriately to deliver fair value.

Overall, our operational costs increased by £5.3m due to the availability of antigen testing for customers during the pandemic, as part of the value return process (£4.2m) and an increase in investment project spend (£4.3m). These cost increases are offset by more than £3m of cost reductions as the Company continues to monitor its cost base and look for efficiencies. The increase in investment project spend has been driven by the activity relating to our new insurance administration platform (proof of concept, scoping and designing work). The initial phase of the project is scheduled to go live in 2022.

The financial markets in 2021 were volatile, and most markets suffered losses on equities and bonds alike. In the last quarter of the year the protection that our bond portfolio had given us against market losses was eroded as bond values fell with an expectation of interest rate rises in the UK and globally, resulting in overall investment returns reducing to £0.4m (2020 – £4.2m).

The year ended with a comprehensive loss of £12.9m (2020 profit £13.0m) as claims costs returned to normalised levels and our total assets reduced by £3.9m in the year. This contrasts with 2020, which was an extraordinary year, when profits were higher as a result of significantly lower claims volumes due to the pandemic.

Key performance indicators (‘KPIs’)

The Simplyhealth Group manages its business based on the following key financial and other performance indicators.

Total customers	+1.0%	Total technical income	-6.0%
2.359m		£198.2m	
2021	2.359m	2021	£198.2m
2020	2.336m	2020	£210.9m
Claims loss ratio (CLR) ¹	+17%	UK GAAP (loss)/ profit before tax	-£35.7m
72.0%		£(14.7)m	
2021	72.0%	£(14.7)m	2021
2020	55.0%		2020
			£21.1m
Solvency ratio ² (2021 unaudited)	-169.5%	Customer experience index ³	+9.0%
338.5%		74.0%	
2021	338.5%	2021	74.0%
2020	508.0%	2020	65.0%
Adjusted operating profit ⁴	-£39.4m		
£6.8m			
2021	£6.8m		
2020			£46.2m

Notes

- The claims loss ratio is calculated by dividing claims incurred in the statement of comprehensive income by the total technical income.
- The solvency ratio is defined as eligible own funds divided by the Solvency Capital Requirement. The Group’s capital reserves primarily comprise retained profits (page 73 and note 4).
- The Group uses a customer experience index to track its performance in meeting the needs of our customers and the quality of service they receive (page 29).
- Adjusted operating profit is designed to illustrate the Group’s trading performance on its core activities by excluding the results of discontinued activities, one-off projects and transactions and items such as goodwill amortisation and returns on the investment portfolio that are incidental to these activities.

BUSINESS REVIEW CONTINUED

Financial highlights

Technical account

Total technical income on continuing operations of £198.2m was a reduction on 2020 of 6.0%, £12.7m (2020 – reduction of £1.4m) primarily from the rebate to customers announced in December 2021, together with a mixture of growth and decline in its channels described in more detail on page 6.

Total claims incurred increased in 2021 by £26.7m (2020 – claims reduced by £38.4m from the prior year as a result of the pandemic). There was a gradual increase in claims volumes throughout the year, which appears to be as a result of social restrictions relaxing and our health practices returning to more normal operating procedures. Health treatment costs continued to be significantly higher than pre-pandemic levels as a result of pandemic driven claims inflation, adding approximately £7.6m to the claims cost.

With a fall in income and increased claims expense net technical income after claims fell back to £55.6m, closer to pre-pandemic levels of £58.0m (2020 – £95.0m). With income also impacted by the price freezes made to support customers and the increase in the average cost per claim the claims

loss ratio (CLR) for the year rose back up closer to pre-pandemic levels of 72.7% to 72.0% (2020 – CLR was low at 55.0% due to reduced claims volumes).

The balance on the general business technical account was a loss of £6.1m (2020 – profit £41.9m), a shift of £48.0m with the majority of the reduction resulting from the increased claims cost as noted above.

After investment returns, other income and charges, we report a UK GAAP loss on ordinary activities before tax of £14.7m (2020 – profit £21.1m), again a significant movement of £35.8m.

Adjusted operating profit

Adjusted operating profit is defined as the surplus on the general business technical account and income and expenses of running the non-technical business, including central management expenses. It is designed to illustrate the Simplyhealth Group's trading performance on its core activities by excluding the results of discontinued activities, one-off projects and transactions and items such as goodwill amortisation and returns on the investment portfolio that are incidental to these activities. Clearly 2020's result was significantly impacted by the fall in claims expense, being £26.7m lower than 2021 as referenced earlier in this section.

The adjusted operating profit is reconciled to the loss before tax in the statement of comprehensive income in the table opposite.

In the adjustments seen in the table there are a few differences year on year worth expanding on:

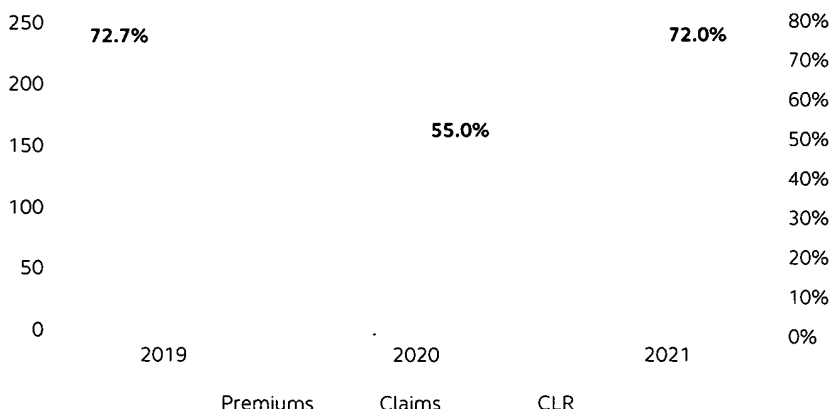
Impairments were made to some of our investments last year mainly as a result of the impact of the pandemic on the profits in these businesses. However we are pleased to see these businesses returning to profitability in 2021, with the only further impairments anticipated limited to specific localised situations.

Following the sale of Animal Healthcare Limited to Premier Veterinary Group (PVG) in 2020, and given the significant uncertainty around the value of the equity, we impaired the subordinated convertible PIK note* in 2020, eliminating any value above the face value of the note totalling £1.5m, until such time as PVG was able to report sustained profits. From the end May 2021 PVG reported profits and demonstrated a sustainable profit forecast and the decision was taken to reverse the impairment of £4.1m from 2020 and to recognise an investment gain in 2021 of £3.4m, with a total carrying value at December 2021 of £9m.

The transformation expenses increased significantly in 2021, as a result of the investment in our new systems and platforms, together with other transformation projects as we look to streamline our operations while seeking to improve our customer experience further.

Claims Loss Ratio (CLR)

CLR is defined as claims incurred net of handling charges as a ratio of premium income



* The PIK note is a financial instrument for a loan against which PVG pays Simplyhealth interest, which also has conditions for conversion of the debt to equity.

	2021 Continuing operations £m	2020 Continuing operations £m
Statement of comprehensive income:		
(loss)/profit on ordinary activities before tax	(14.7)	21.1
Adjustments		
Add back donations	0.9	1.0
Add back amortisation of goodwill and other intangibles	12.0	13.1
Exclude investment loss/(return)	(0.4)	(4.2)
Impairments	(4.1)	5.3
Add back revaluation loss	0.0	0.2
Add back corporate transformation expenses	11.0	6.7
Add back reorganisation costs	0.7	0.9
Add back initial investment in digital ventures	1.4	0.0
Cost of closing the Winchester office	0.0	2.1
Adjusted operating profit	6.8	46.2

In 2021, we also started to develop our approach and ideation for new digital ventures as referenced in the Strategy section (pages 6 and 7). This will be a growing investment in 2022 and a key part of the business strategy to innovate and modernise our offerings to the market.

Cash flow

The Simplyhealth Group's cash, and cash equivalents, decreased by £13.2m during the year (2020 – £4.0m). Our operations brought an inflow of cash of £1.7m (2020 – £28.2m) primarily as a result of the increase in claims, our investments in transformational projects, and new healthcare solutions. A further £2.2m (2020 – £1.5m) was invested in the Group's IT infrastructure and systems, as well as our new modern working environment, which are both part of our transformation programme. Net purchases of investments totalled £15.9m (2020 – net purchases £21.9m) as outlined above.

On 31 December 2021, the Group held cash and cash equivalent balances totalling £35.2m (2020 – £48.4m). All of the Group's other financial liabilities, which comprise accruals, trade and other creditors total £37.6m (2020 – £27.5m).

Solvency

Our Own Risk and Solvency Assessment (ORSA) demonstrates a robust capital strength, which would allow us to absorb substantial shocks and still retain significant headroom above our capital holding requirement. We have tested our solvency with a number of scenarios including large membership lapses, financial market shocks and various levels of economic downturn including claim risks resulting from the pandemic. In all these scenarios our solvency position remains secure.

Solvency position – capital surplus

The Simplyhealth Group remains in a strong solvency position at the end of the year with Eligible Own Funds (2021 – unaudited) of £238.2m (2020 – £245.5m) compared to its Solvency Capital Requirement (2021 – unaudited) (SCR) of £70.4m (2020 – £48.3m), giving a solvency ratio of 338.5% (2020 – 508%).

The primary driver for the fall in solvency ratio is increases in market risk, through our revised investments strategy and our increased holdings in unlisted investments. While decreasing, the ratio is significantly in excess of regulatory requirements and these

KPIs are clear indicators of a strong, sustainable business that our customers can trust to be around to support them with their healthcare needs for the long term. The reduction from prior years is a reflection of the loss for the year, and the increase in capital requirements following the transfer of £100m into a Diversified Income Fund during December 2021.

Capital headroom of £139.7m (2020 – £177.9m), a decrease of £38.2m (2020 – £33.9m increase), continues to give us the capacity to invest for growth and to deliver our strategy, as well as being able to absorb any potential market shocks and other stresses, which are tested through our ORSA. The capital surplus is above our regulatory capital requirements, adjusted for the Simplyhealth Group's risk appetite. The risk appetite has been agreed with the Board, and includes a capital buffer in excess of the SCR.

Taxation

The Group recorded a tax credit of £1.8m in the year (2020 – tax charge of £8.2m). The tax charge is higher than the effective rate of corporation tax of 19% as certain costs, such as goodwill amortisation, are not allowable as expenses for tax purposes.

In November 2021, HMRC approved our application for a Partial Exemption Special Method for VAT and we expect a retrospective calculation resulting in a rebate of c.£1m, which is now accounted for in the financial statements for year ending December 2021.

The Simplyhealth Group has a tax debtor of £1.7m (2020 – creditor of £1.1m), which represents the balance of corporation tax recoverable.

BUSINESS REVIEW CONTINUED

Impact of COVID-19

Uncertainty has continued to be one of the biggest challenges for the business in forecasting the impact of the pandemic on our customers, healthcare practitioners and claims performance.

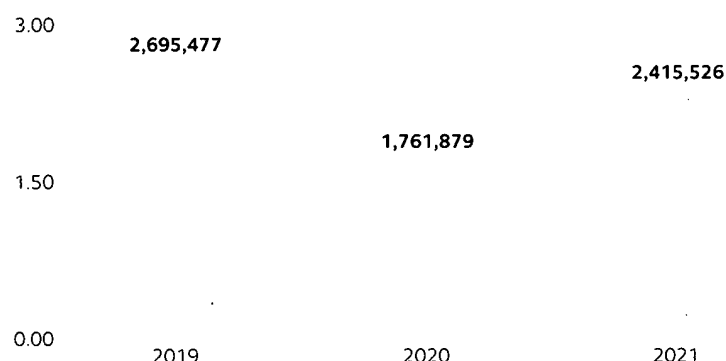
Last year, as we built our plans and budgets for 2021, we expected to see a recovery in claims volumes as social restrictions relaxed, healthcare practitioners adjusted to the new COVID-19 safety measures and the vaccination programme rolled out across the whole of the UK.

We ended 2020 and started 2021 with more social restrictions, but from February 2021 the UK breathed a small sigh of relief as evidence of the effectiveness of the vaccination in significantly reducing levels of hospitalisation and death from COVID-19 led to a sustained period of relaxation of the previous social restrictions. As 2021 progressed, we saw more new variants and once again the prospect of some social restrictions, despite a rapid roll out of the vaccination booster programme.

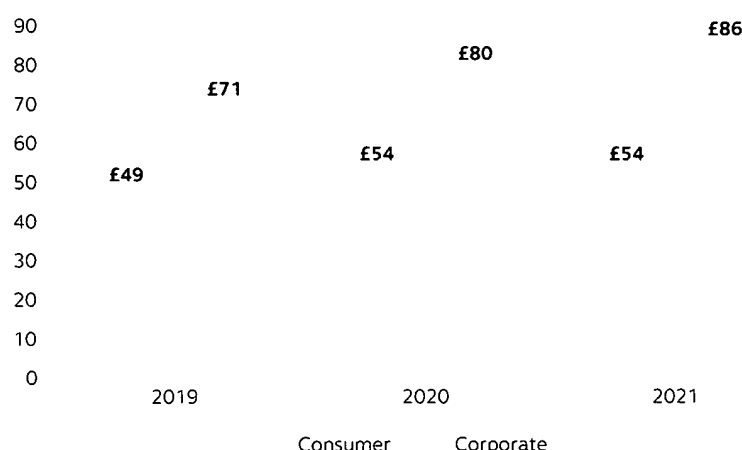
This is all relevant in understanding the influences impacting our customers and the recovery of our claims volumes for our healthplan products for our Corporate Clients and within the Consumer markets.

Counter to the continuing lower levels of total claims volumes (compared to the pre-pandemic level) is the significant increase in treatment costs experienced as healthcare practitioners passed on the costs of the COVID-19 safety measures onto patients. Average claims cost increased by 12% in Consumer from 2019 to 2021, with Corporate Clients average claims costs rising by 21% over the same two-year period. A six-month rolling claims inflation analysis shows a step increase from June 2020 to September 2020 (as new PPE rules came into force).

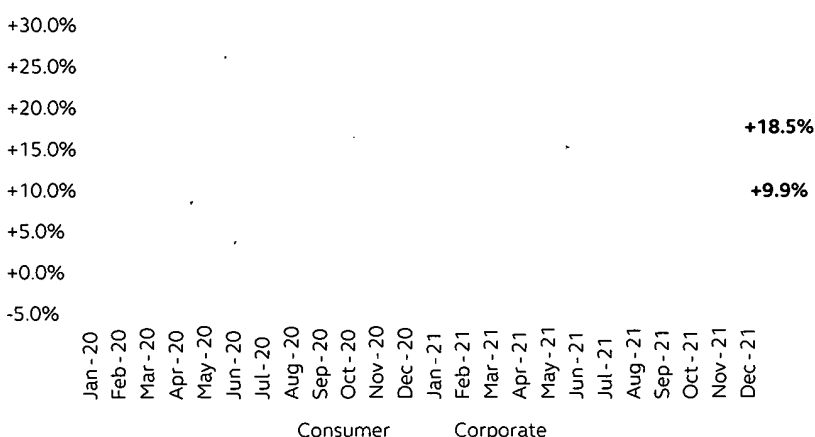
Total claim volumes



Average claim costs



Rolling 6 months claims inflation vs. Dec-19



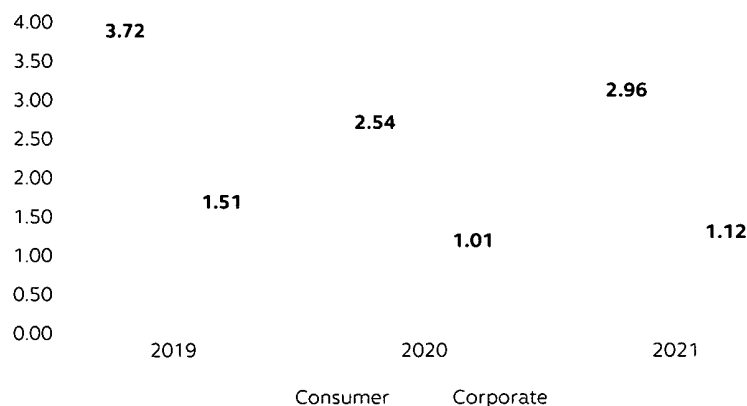
After which time, costs stabilised and reduced slightly in the Consumer book, but continued to increase in the Corporate Client book driven by a change in treatment mix to more high end cost treatments, particularly in dental treatments where we saw an average of 30% increase in treatment costs.

Surplus Profits

Last year when the pandemic hit, we saw a significant fall in claims, and therefore an increase in profits, as customers struggled to access health practitioners and treatments. The term ‘surplus profit’ is given to the proportion of these profits that are ring-fenced to be returned and give value back to customers. Last year the Board agreed some key principles relating to surplus profits, which are listed below and were shared in last year’s Strategic Report. These principles still apply, and are fundamental to the decisions made at the end of 2021 on how we will give value back to impacted customers. These are:

- We do not intend to make surplus profits from the COVID-19 pandemic
- We will make it a priority to offer substitute value that meets customers’ healthcare needs, wherever we can, in order that we fulfil our purpose of improving access to healthcare
- We will take account of economic conditions, government policies (such as IPT), access to healthcare in the UK and consumer/corporate affordability to inform our decision making
- We will enhance support mechanisms for vulnerable customers and communicate these as part of our normal business processes
- Any surplus profits, in year, arising from the pandemic will be excluded from all performance incentive measures and payments for directors and employees

Claims incidents (average per policy per annum)



We continually monitor claims performance and over the last two years we had to make judgements on the impact of COVID-19 and claims. Initially we speculated claims would surge as social restrictions lifted, however what we have seen is a difference in claims cost recovery between our different channels. Consumer claims paid incidents in 2021 are 79% of the pre-pandemic level in 2019, but the claims loss ratio (based on paid claims) was at 94% of the pre-pandemic level. In Corporate Clients, claims paid incidents are at 74% of pre-pandemic levels, although the claims loss ratio (on paid claims) was at 96% of the pre-pandemic average, with the level in 2019 impacted by some loss-incurring accounts, which have been re-priced through our risk-based pricing approach to our Corporate Client accounts.

With the principle accepted that the pricing in our Corporate Client channels is risk-based and reflects experience, we have focused our evaluation of ‘surplus profits’ to the Consumer channel, to rebalance the claims that were suppressed last year as a result of restricted access to healthcare. In 2021 we created a model that applied a level of judgement relating to the impact social restrictions had on customer access to healthcare, and therefore claims volumes between March 2020 and February 2021.

The model calculated a potential ‘value deficit’ resulting from the social restrictions of COVID-19, which we called ‘surplus profits’, generating a value of £18m in total.

In 2020 we supported customers with a number of investments and initiatives, and negotiated the provision of COVID-19 related health benefits. This approach continued in 2021, with a total of £9m of value paid back or invested in 2020, leaving a residual ‘unpaid’ surplus profit of £9m. In December 2021, the Board agreed the value of the surplus that should be rebated to our consumers as early as possible in 2022. A provision of £9.3m has been made in the 2021 financial statements to reflect this commitment to refund premiums, including associated administrative costs.

BUSINESS REVIEW CONTINUED

Growth, Investments and Outlook

Highlights

Since 1872, we’ve continually evolved our business, responding to changing market opportunities and the needs of our customers and their communities, with a core belief at the heart, which is that no-one should go without the healthcare support they need.

In 2021 we supported over 2.6m customers and ended the year with a total of 2.4m customers.

Denplan

Supporting dentists to help maintain their patients’ oral health and providing continual professional development, business and professional support for dentists.

In August 2020, we announced the divestment of our veterinary business to Premier Veterinary Group Plc (PVG)

to enable us to focus solely on human health. In May 2021 the transfer of the customer data to PVG completed successfully, allowing PVG to realise the benefits of their acquisition and start to deliver sustainable profits. This is excellent news for us as we hold a PIK note (as defined on page 11) with an equity option value, which we now recognise in the financial statements of £9m.

Last year we reported our intention to pause any further acquisitions in our dental joint venture (JV) model. In 2021, the Board agreed an exit from our JV investments, with the objective of finding a like-minded new investor; one who would continue the model, working in partnership with their dental partners and retaining the Denplan relationship and support in practices.

Aligned to our ESG agendas we are now committing to pledge a minimum of £1m per annum to deliver Healthier Futures. Any underspend in a year will be placed in a Charitable Foundation Bank Account for donating in future years.

Investments

The primary objective of our investment portfolio is to preserve capital and provide liquidity, whilst generating a positive return.

The decision made in July 2019 to transition the Simplyhealth Group’s assets held in the Schroder Dynamic Multi-Asset Fund (‘DMAF’) to a Core Fixed Income Fund (‘CFIF’) of low-risk, high quality, liquid and short dated investment-grade assets, proved fortuitous given the impact of COVID-19 on markets throughout 2020 and 2021. The de-risking move was originally intended to provide some stability at a time when Brexit and US elections were creating volatile and uncertain markets. As part of a strategy review completed in 2019, we implemented a revised short-term investment strategy, which would include the introduction of a more diversified credit mandate with a higher return target, while discussions on the broader business strategy continued in parallel. However as the pandemic hit, we paused the implementation of this strategy.

As the pandemic played out, we saw the easing of national lockdowns, and with continuing support from central banks, investor optimism rose significantly, driving market growth across the majority of key asset classes over the period. This growth was partially offset over Q2 and Q3 2021 amid inflationary concerns, as increased consumer and corporate spending, combined with supply chain bottlenecks and a spike in gas and energy prices in Europe and China, further exacerbated supply chain issues. As a result, investors feared the removal of the low-interest rate environment, which would signal an end to cheap borrowing and slowing global economic growth.

Denplan+ Patient Growth

Our campaign to support dentists with NHS transitions created new Denplan relationships with practices. The Denplan+ contract, which incentivises growth in Denplan patients has also led to improved patient penetration rates in existing practices.

Key data

- 6,700 Denplan dentists, providing support to 1.4m Denplan covered patients
- Net growth of 24,700 patients



Inflation concerns drove market volatility in recent months, as investors started to anticipate rising interest rates to address this. During this period, we sustained losses on our investment bond portfolio of £4.4m which offset the gain in other financial investments, leading to a negative return of £1.1m before investment income.

During the year 2021, the Simplyhealth Group received investment income of £2.1m (2020 – £3.0m). At 31 December 2021, the market value of the Simplyhealth Group's total investment portfolio was £217.9m, an increase of £17.3m from 31 December 2020.

In the past, Simplyhealth Group solely utilised Schroder Investment Management Limited to manage its direct investment holdings in line with the risk appetite set out in the Investment Management Agreement. The performance during 2021, is a reflection on market movements, rather than issues specific to our portfolio. The realised and unrealised losses of £1.1m (2020 – £1.7m) represents a decrease of £2.8m from last year; 1.3% of the portfolio value.

The business plans to make significant investments into new ventures over the next three years, and with a high probability that the CFIF will lose money in real terms, an investment review was undertaken to explore options on how to generate a higher return over an interim period.

We have now updated our strategy and have chosen to adopt a different investment approach, moving funds from Schroder to create a £100m portfolio with Pimco Investment Management. This portfolio is split with 50% in a low-risk credit portfolio and 50% in a pooled diversified credit fund. Over time, the expectation is that capital will be withdrawn from the diversified credit allocation, moving the Simplyhealth Group's portfolio to consist predominantly of a low-risk credit portfolio, which will provide liquidity and capital support to the wider portfolio of new ventures.

We aspire to have an investment portfolio that has positive social and environmental impacts. We hope to have 25% of our portfolio invested in an ESG enhanced fund by 2023.

Outlook

The outlook for Simplyhealth remains positive with healthcare understandably a key concern of many people and employers. With the pressures on the NHS expected to continue, we are well placed to help develop and deliver alternative, complementary, services for the UK population.

In the coming years we are expecting growth across all business channels, improved underwriting margins as inflationary cost pressures stabilise and a reduction in our cost base. The journey to optimise our cost base will continue, but with greater pace as we deliver the benefits that will come from the investments in our new policy administration platform, systems and process reviews, digital adoption and the democratisation of data.

The combined impact being progress towards sustained retained profits. Outside of the core business we will begin to make investments in new ventures to help us accelerate our development of new products and propositions for a forward facing, digitally enabled, purposeful health business.

We have a loyal membership base, which we will continue to value and serve effectively, recognising their need for flexible propositions as their healthcare needs evolve.

However, we also need to appeal to a wider market to drive long-term sustainable growth, particularly in a younger demographic. The development of new customer centric digital propositions, based on consumer research and understanding, will be a key focus for 2022.

In the Corporate market we will continue to evolve our proposition in conjunction with clients and intermediaries to help employers support the physical and mental healthcare needs of their people.

Building on this year's success we will continue to accelerate growth in Denplan through patient penetration within existing practices, bringing more new practices into the Denplan family and embedding ourselves deeper into dental practice operations to support dentists with high quality treatment delivery and practice management.

SUSTAINABILITY

Healthier sustainability

The health of our business underpins our ability to help improve the health of individuals. In turn, supporting strong communities and ultimately benefiting society as a whole.

To us, sustainability is about more than just being 'green'. We're constantly looking inside our organisation to ensure that every working day, every decision, and every action – big or small – not only helps improve the health of our company, customers, and communities, but also the health of everyone and everything we hold dear, including our planet. We are committed to complying with and staying ahead of evolving legislation. We have ambitious sustainability aspirations and goals to help to create value for all our stakeholders, whilst reducing our negative impacts. We always want to challenge ourselves to do more. To push ourselves even further forward. Because settling for what's good enough, is simply not good enough in our eyes.

We're also constantly looking outwards, beyond our organisation to the world around us, and the collective challenges we face. As such, our approach to sustainability has been informed by the Sustainable Development Goals (SDGs) and is in keeping with the Paris Agreement, which sets out a global framework for limiting global warming to well below 2°C.

We believe that business can be a force for good. That's why this year we became a member of Business in the Community, the largest and longest established business-led membership organisation dedicated to responsible business. We're also proud to have recently become an accredited Living Wage Employer, formalising our commitment to all our employees and contractors.

We're excited to share that we're in the process of joining the BCorp Movement. Certified B corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose. We submitted our impact assessment in December and hope to receive certification in 2022.

Information contained in this section relates to all entities within Simplyhealth Group Limited, with the exception of JV's and special purpose vehicles ('SPV').

Engaging our stakeholders and understanding our impacts

Our stakeholders are important to us. Regular engagement with our stakeholders helps us to understand our impact across the value chain and gain insight into the topics that matter the most to our different groups. Under our s172(1) statement (see page 32), we have identified who we consider to be our key stakeholders, and how we engage with them to ensure their views are considered when making decisions.

In 2018 we partnered with Bioregional to formally identify our company's impact on the economy, environment, and people, and uncover the ESG topics that influence the assessments and decisions of our key stakeholder groups. These topics are regularly reviewed, considering any changes to the business or operating context. The topics identified and prioritised through this process helped shape our sustainability strategy and form the basis of this year's report.

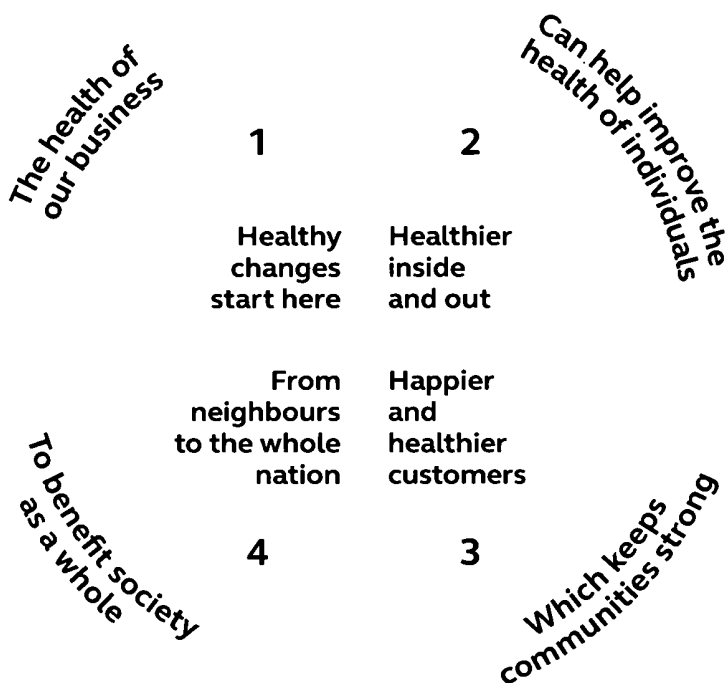
Our ESG strategy

At Simplyhealth, sustainability is embedded in everything we do. Our programme of change, 'All Together Healthier', is our framework for action.

Our four areas of focus, 'Healthy Changes Start Here', 'We are Healthier Inside and Out', 'Happier and Healthier Customers' and 'From Neighbours to the Whole Nation', are underpinned by a series of aspirations, goals and KPIs, some of which have been in place for some time, and others which have been developed in the past 12 months as further commitment to making real change in this area. We are sharing these goals publicly for the first time because we believe in building engagement and accountability through transparency, and we will report on our progress against these goals in future years.

We are committed to sustainability across all levels of our business. A Sustainability Committee, chaired by Richard Gillies, Chief Operating Officer, has been established and will be accountable for the delivery of our sustainability plan. The Committee comprises of representatives from across the business and meets at regular intervals throughout the year. ESG is also considered at our Risk and Capital Committee, chaired by Jenny Knott, a non-executive director.

Our programme of change stretches to 2025 and beyond as we work towards the global 2030 agenda for sustainable development, with a focus on SDG 3 Good Health and Wellbeing, and the UK government's 2050 Net Zero ambition. Our progress towards our commitments, within the context of these goals, is monitored by independent sustainability experts, Bioregional.



The health of our business

We're constantly looking inside our organisation to ensure that every working day, every decision we make, and every action (big or small) not only helps improve the health of our company, customers and communities, but also the health of everyone and everything we hold dear.

Can help improve the health of individuals

We mean this both mentally and physically. The health and happiness of all our workforce is always top of our list. After all, feeling good is contagious (in a good way). And when our colleagues feel this way, they pass it on. (Again, in a good way.)

Which keeps communities strong

Communities matter. That's why we're proud to work closely with people and charities at a local, regional and national level. Looking out for each can be a big gesture or a small offer of help. We're here for it all. With an aim to always do better.

To benefit society as a whole

When health issues or worries threaten to slow people down, we're here to give fast access to the healthcare they need. And because we believe prevention is better than cure, we'll continue to create quick and easy ways for millions of people to live healthier.

Non-financial statement

This separate statement has been compiled in accordance with the Companies Act 2006, Section 414CA and 414CB.

Environmental, Social and Governance is managed through the Board committees covering all aspects of sustainability including the impact on society and climate change. The committees ensure that ESG is integrated within all operations, processes and investment decisions.

This report contains non-financial information and reflects our material sustainability issues including the key performance indicators we use to manage these in our business. This statement supplements and cross references to the report as follows:

Reporting requirement	Section of report
Stakeholders	S.172 Statement: Engagement and Principal Decisions, pages 32 - 35 Happier and healthier customers, page 29
Environmental Matters	Our approach to environmental matters, pages 18 - 21
Employees	Our people – we are healthier inside and out, pages 22 - 28
Respect for human rights	Human Rights, page 23
Anti-corruption and bribery	Anti-corruption and bribery, page 23
Social Matters	From neighbours to the whole nation, page 30
Description of Principal Risks and impact of business activity	Principal Risks and Uncertainties, pages 38 - 41
Description of the Business Model	Business Model, pages 6 and 7
Non-financial Key Performance Indicators	KPIs, pages 18 - 31

SUSTAINABILITY CONTINUED

Healthy changes start here

We're constantly looking inside our organisation to ensure that every working day, every decision we make, and every action – big or small – not only helps improve the health of our company, customers and communities, but also the health of everyone and everything we hold dear. We think globally and act locally to protect our environment.

**FSC accredited.
100% of our
paper for
customer
communications
is sustainably
sourced**

**Certified Carbon
Neutral Plus**

Our approach to environmental matters

This year we have been busy laying the groundwork for integrating the Task Force on Climate-related Financial Disclosure (TCFD)'s recommendations into our business processes. We have taken essential steps to be able to make consistent disclosures in the future, including adapting our finance systems to improve TCFD data capture and integrating the recommended disclosures into our investment strategy discussions. We are committed to reporting in accordance with TCFD recommendations during our next reporting period.

Our actions this year include:

- Minimising the impact of print and marketing activities
- Cutting the impact of our operational waste
- Reducing and balancing our carbon emissions
- Supporting more colleagues to lead healthy, more sustainable lifestyles

Our progress to date

We have continued to expand on the progress made in 2020 as a result of our move to a more hybrid working model. The Simplyhealth Group has sustained a reduction in Scope 1, 2 and 3 emissions, and operational waste. We have accelerated progress through our new fleet policy, with only hybrid and electric vehicles available to colleagues upon renewal.

- We continue with the work to create the infrastructure to digitise customer communication
- We are FSC accredited and 100% of our paper for customer communications is sustainably sourced
- We are certified Carbon Neutral Plus (March 2021) through an increase in carbon offsetting above our emissions level.

Minimising the impact of our print and marketing activities

We are minimising the impact of our print and marketing activities in two ways: sourcing responsibly and digitising our customer communications.

We committed to being FSC accredited and using 100% sustainably sourced paper by 2020. We're proud to report that we have now met this target. We are also tracking against our target to reduce our paper volume by 50% by 2022, from a 2019 baseline. Unfortunately, due to COVID-19 we have faced some challenges while balancing the requirements of operating a business. In response to the pandemic, we increased our customer communications as the health and safety of our communities was our paramount concern (see table A).

We are continuing with our work to digitise customer communications. This year, we have focused on creating the necessary infrastructure to enable this. We have made progress against our target of a 95% reduction by 2025 but expect to see this accelerated in 2022 and 2023 as we implement our insurance policy administration platform, a huge step in our journey to becoming a predominately digital business (see table B).

Cutting the impact of our operational waste

We have an active approach to reducing the impact of our operational waste including sending zero waste to landfill, recycling as much of our waste as technically possible and recycling our computers and electrical waste.

We have continued to make progress on cutting our operational waste, and whilst not reaching our 2021 target of a 25% reduction in impact, have achieved a 22.8% reduction this year. With the change to home working, and the closure of two of our offices, our waste profile has changed, and we will be reassessing our waste targets in 2022 (see table C).

Table A. Reducing the impact of our print and marketing activities**Aspiration:** 100% sustainably sourced paper for customer communications and a 50% reduction in paper use**By When:** 2020/2022**Method:** Paper reduction, sustainable sourcing and FSC accreditation

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
Reducing the impact of our print and marketing activities	% sustainable paper products purchased	94% (2018)	100%	2020	100%
	Paper used for marketing communications	238.43 tonnes (2019)	50% reduction	2022	187.45 tonnes
	FSC Accreditation	No accreditation (2018)	FSC Accreditation	2020	Accreditation retained for 2022

Table B. Digitising our customer relationships**Aspiration:** 90% digital customer communications**By When:** 2025**Method:** Digital only for policy and claims admin

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
Digitising our customer relationships	% of customers making claims online	39% consumer cash plan (2019)	95%	2025	59%
		73% corporate (2019)	95%	2025	97%
	% of pulse letter templates digitally enabled	40% consumer cash plan (2019)	95%	2025	45%

Table C. Reducing the impact of our operational waste**Aspiration:** 90% recycled waste**By When:** 2021**Method:** Reduce total waste by 5% p.a, Increase proportion waste to recycling

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
Reducing the impact of our operational waste	Total waste tonnage	95.7t (2019)	-25%	2021	73.855t (-22.8%)
	Reduce % waste to energy recovery	54% (2019)	10%	2021	53.57t (69%)
	Increase % waste to recycling	46% (2019)	90%	2021	31% (23.74t)

SUSTAINABILITY CONTINUED

Reducing and balancing our carbon emissions

We have been working on mapping our road to net zero based on two parallel pathways: balancing our emissions through offsets and reducing our total emissions. When calculating our carbon emissions, we include all our direct and indirect emissions including the carbon emissions created by our colleagues working from home.

We secured Carbon Neutral Plus status in March 2021, based on our 2020 emissions. This status was independently audited and certified by [Carbon Footprint Ltd](#) and is valid for 12 months. We achieved this by cutting our carbon emissions and then offsetting our remaining emissions whilst supporting three international energy efficiency projects aimed at helping communities in other parts of the world. These include a project in Sudan, which replaces stone fires with fuel efficient stoves, reduced deforestation and forest degradation in Brazil, and a borehole rehabilitation project in Uganda. In addition, Simplyhealth planted 500 trees in the UK in 2021 at sites accessible to our customers and our colleagues.

In 2021, we progressed our commitment to lowering our Scope 1 emissions by switching our Fleet to 100% hybrid and electric vehicles by 2024. This year, 80% of our company cars were hybrid or electric vehicles and we will continue to report on our progress against this goal in future years.

We have continued to lower our Scope 2 carbon emissions, by purchasing electricity which is independently certified as 100% 'green' under the Renewable Energy Guarantee of Origin (REGO) scheme.

Our 2021 Green House Gas ('GHG') emissions have been independently assessed following the GHG Protocol and has used the 2021 emission conversion factors published by Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy & Industrial Strategy (BEIS). The assessment follows the GHG Protocol dual reporting methodology for reporting both location-based and market-based Scope 2 from electricity usage. The financial control approach has been used.

The GHG assessment was prepared in accordance with Part 1 of ISO 14064: 2018. This standard requires an estimation of likely error based on error analysis, to identify any uncertainty in the calculations. This analysis demonstrates an error of +/- 3% excluding Home Working and 13% for Home Working.

Table D below sets out our specific KPIs, and how we have performed against these targets in 2021. We continue to review our targets to ensure they remain relevant and challenging.

Supporting more colleagues in making more sustainable choices

Our impact as a business extends beyond our four walls and we believe it's vital that we support our colleagues in making more sustainable lifestyle choices. Our focus is on providing a mix of information and inspiration through engaging newsletters. This year we have also invested in understanding colleagues' behaviours, with the aim of tailoring our content to provide practical guidance to support colleagues to put their values into action (see table I).

Table D. Reducing and balancing our carbon emissions

Aspiration: Net Zero operational GHG emissions

By When: 2030

Method: Carbon footprint reduction – Scope 1 and 2 (energy and some business travel)

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
Decrease direct Scope 1 and 2 operational GHG emissions	Direct GHG emissions (tCO ₂ e)	981 tCO ₂ e (2018)	447 tCO ₂ e (-50%)	2025	503.92 tCO ₂ e (-48%)
			0 tCO ₂ e (-100%)		503.92 tCO ₂ e (-48%)
Transition of fleet to zero GHG emissions	% company cars hybrid	0% (2019)	100%	2024	80%
	% company cars zero emissions	0% (2019)	100%	2030	5%
Carbon neutrality	Certified Carbon neutral		Certified Carbon Neutral Plus (with offsetting)	2020	Feb 2022 – Carbon Neutral Plus

Table E. Decrease GHG emissions of indirect business travel

Aspiration: Indirect GHG emissions have significantly decreased

By When: 2025

Method: Carbon footprint reduction – Scope 3

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
Decrease indirect GHG emissions to 50% of 2019 base year.	Indirect emissions – Scope 3	820.44 tCO ₂ e (2019)	410.22 tCO ₂ e – (-50%)	2025	620.82 tCO ₂ e (-25.26%)

Our GHG Emissions in 2021

Location-Based Tonnes CO ₂ e		Marked-Based Tonnes CO ₂ e	
Scope 1	Scope 2	Scope 3	

Table F.

In 2021, we continued our year-on-year reduction in total energy consumption. Simplyhealth’s total energy consumption for 2019, 2020 and 2021 in kWh is:

kWh	2019	2020	2021
Totals	4,370,833	3,032,167	2,656,712

Table G.

We also saw a continued downward trend in total GHG emissions. Simplyhealth’s GHG emissions since the 2019 base year in total tonnes of CO₂ equivalent reported in dual format is:

tCO ₂	2019	2020	2021
Market based	1,295.73	912.65	831.76
Location based	1,821.47	1,283.68	1,124.73

Table H.

Our Intensity Ratios since the 2019 Base Year are:

Tonnes of CO ₂ e	2019	2020	2021
Per employee	1.64	1.59	1.16
Per £1m turnover	7.48	5.65	5.06

Following the independent audit of our 2021 GHG emissions data, for 2022 Simplyhealth have been certified as a CO₂e Assessed Organisation, CO₂e Reducing Company, Carbon Neutral and a Carbon Neutral Plus Organisation.

Table I. Supporting more colleagues in making more sustainable choices

Aspiration: Our colleagues consistently report adopting more sustainable behaviours at home

By When: 2021

Method: Provide information that enables colleagues to choose a more sustainable lifestyle and measure behavioural change outcomes

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
Supporting colleagues with information on sustainable healthy lifestyles	Number of Regular quarterly articles in Connect & Monthly Simpl-e newsletter lifestyle tips	2x Connect (2018) 3x Simpl-e (2018)	4 x Connect 6 x Simpl-e articles	2021	2 x Connect articles 15 x Simpl-e articles
Understanding colleagues’ behaviours	Surveys per year	1 survey (2018) 33% participation (2018)	1 annual survey 68% participation	2021	1 annual survey 27% participation

Table J.

Our detailed GHG Emissions are:

Scope	Activity	Location-Based Tonnes CO ₂ e	Marked-Based Tonnes CO ₂ e
Scope 1	Site Gas	220.09	220.09
	Refrigerants	34.06	34.06
	Company Car Travel	33.17	33.17
	Owned Vans	3.05	3.05
Scope 1 Sub Total		290.37	290.37
Scope 2		213.55	0.00
Scope 2 Sub Total		213.55	-
Scope 3	Home Workers	312.40	312.40
	Paper	148.88	148.88
	Well to Tank	111.53	51.00
	Electricity Transmission & Distribution	18.90	0.00
	Employee-owned Car Travel	8.97	8.97
	Flights	6.88	6.88
	Hotel stays	2.76	2.76
	Hire cars	2.57	2.57
	Cash opt out Cars	2.35	2.35
	Waste	1.76	1.76
	Water (and waste water)	1.47	1.47
	Rail travel	1.35	1.35
Taxi travel	0.70	0.70	
Company Electric Vehicles (charged off site)	0.18	0.18	
Ferry Travel	0.12	0.12	
Scope 3 Sub Total		620.82	541.39
Total Tonnes CO ₂ e		1,124.74	831.76

SUSTAINABILITY CONTINUED

Our people – We are healthier inside and out

The health and happiness of all our people, physically and mentally, is our top priority.

We want to create the same opportunities and experience for everyone, delivering a more diverse, equal and inclusive workforce. We aspire to be widely recognised as a healthy workplace by both colleagues and partners, through the achievement of industry awards.

Our approach

We lead with purpose and humanity. We treat all our employees, contractors and suppliers with respect and are committed to providing a workplace where we can all thrive. Our approach is built on the following actions areas:

- Our culture and values
- Upholding universal principles, rights and standards
- Becoming a more diverse, equal and inclusive workplace
- Supporting health and wellbeing
- Enhancing training and education

Our progress to date

The continued impact of successive lockdowns and a more permanent transition to a hybrid working model, coupled with the inevitable change that comes during a leadership transition provide the backdrop to our ‘people target’. Throughout 2021, colleague wellbeing has remained high on the agenda with wellbeing activities and webinars held monthly. We also launched a new learning management system and delivered the first suite of colleague training modules.

To guard against unbiased selection in our recruitment processes, hiring managers have completed accredited interview skills training.

We are a certified Living Wage Employer

We have been shortlisted for the Inspiring Workplaces Awards

75% of colleagues completed our annual wellbeing survey in 2021

919 employees have used SimplyLearn, our new learning experience platform this year

Our culture and values

Since March 2021, we have been working on defining the culture and values which will underpin the delivery of our future ambitions. As set out previously in the Chairman’s Welcome, we have introduced three new values and associated behaviours:

Courage and curiosity

Trust and kindness

All Together Healthier

- **Courage and curiosity** – we are ambitious, and we push boundaries to deliver great results for our customers and for our business. We speak up for what we believe in to make a difference.
- **Trust and kindness** – trust is at the heart of everything we do. We work hard to build trust with colleagues, customers, and partners to get the best results. We treat everyone as individuals, embracing diversity and inclusion.
- **All Together Healthier** – we are here to help others live their best lives. We help to define the latest healthcare trends. We work together to innovate, driving change so we can provide the best healthcare for our customers.

Engaging our people

We believe that engaging our people should be an active, dynamic and reflexive process. Each month we circulate an employee engagement survey. The anonymised results of the surveys are shared with colleagues who are invited to continue discussion openly and anonymously if they prefer. Survey results are regularly monitored and reviewed at a Board level to ensure that colleague voices actively influence decision-making at the very highest levels of the business.

All employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees is through internal email communications and briefing groups.

Smart working

Over the last 18 months we conducted a total of three Future of Work colleague surveys to explore how we could best support each other in a new working world. In total, we received 2,191 individual comments, accounting for c.80% of our colleagues.

The results of the third and final survey in May 2021 showed that 80% of colleagues still preferred to work 'always' or 'mostly' from home, a slight increase on the previous two surveys. Based on this feedback, and our collective learnings from 2020, we introduced our new 'Smart Working Guide' in July 2021.

We recognise that Smart Working is not a one size fits all, so we've worked hard to consider all our colleagues different needs. Since July we have been actively seeking feedback on our Smart Working approach and are using our experiences to inform and improve our longer-term plans for 2022 and beyond.

Upholding universal principles, rights, and standards

Upholding human rights is a core priority at Simplyhealth. We comply with all global and UK regulation and legislation and work hard to ensure that these rights are protected through all levels of our supply chain. Our actions are underpinned by policies including our Code of Business Conduct, Human Rights policy, and our Anti-Corruption and Bribery policy.

We have long-standing relationships with our suppliers who are subject to ongoing evaluation and feedback as we work hard to embed our values throughout our supply chain. We are proud to be a certified Living Wage Employer because no-one should have to worry about the cost of day-to-day living.

Human rights

We apply core human rights principles throughout the organisation, and through our vendor selection screening processes we ensure that all key partners and suppliers also uphold those principles.

We continue to tackle modern slavery and human trafficking by educating and informing our employees, making clear commitments, progressing against those commitments, and owning the challenges faced.

We report in the spirit of transparency and acknowledge that while we have progressed, we are committed to continually improving our practices as there are still areas on which we need to work.

All our policies and procedures remain under review and adaptable to any changes in risks faced by Simplyhealth. For more information please see our Modern Slavery and Transparency in Supply Chains statement on our website.

Anti-bribery and corruption

Our risk management framework is designed to ensure compliance with all international laws, rules and regulations and to develop a culture of integrity that protects the Simplyhealth's reputation.

Simplyhealth condemns corruption in all its forms and we will not tolerate it in our business or in those we do business with. It is our policy to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

Any employee who breaches this policy faces disciplinary action, which could result in dismissal for gross misconduct. Any non-employee who is engaged by the Simplyhealth Group and breaches this policy may have their contract terminated with immediate effect.

Monitoring and enforcement of the policy is undertaken by the Simplyhealth Group's legal team and is administered in accordance with our Whistleblowing Policy, which is clearly communicated to all staff.

SUSTAINABILITY CONTINUED

Becoming a more diverse, equal, and inclusive workplace

We believe that we will only be successful in achieving our purpose by having people with passion and commitment from a range of diverse backgrounds including ethnicity, social background, religion, gender, sexual orientation, age or disability, as well as diversity of thought. People matter at Simplyhealth and we want to create an inclusive culture where diversity is a given, allowing each and every individual to grow and be the best they can be. We know that becoming a more diverse, equal, and inclusive workplace will also help us better reflect, understand and serve our diverse customer base.

Equality, diversity and inclusion is an important part of Simplyhealth's agenda and values. We are committed to supporting, developing and promoting diversity and equality in all our employment practices and activities. We aim to establish an inclusive culture free from discrimination and based on fairness, dignity and respect. We do this by providing everyone with access to facilities, personal and career development opportunities and employment on an equal basis regardless of race, nationality or ethnic origin, disability, age, gender, sexual orientation, pregnancy or maternity, transgender identity, religion or belief. During 2021 we became signatories to the Armed Forces Covenant, which aims to ensure that members of the Armed Forces, veterans and their families should not be disadvantaged because of their service to the country. Our approach relates to prospective employees and is reflected in our recruitment processes.

We provide an application, assessment and onboarding journey that is fair, consistent, diverse and inclusive for all, allowing us to hire top talent based on skills and behaviours. We use a number of techniques to help us select successful candidates, these form part of each interview process and vary according to the role. These may include, but are not limited to: pre-set video interviews, verbal and numerical aptitude tests, competency style interviews, presentations and working styles questionnaires.

We give full and fair consideration to the application for employment made by disabled people, having regard to their particular aptitude and abilities and will make reasonable adjustments for all applicants and employees who are, or become, disabled to accommodate their needs. Should employees become disabled and unable to perform their role, consideration would be given to appropriate training, including retraining for alternative work within the Company.

Our approach is shaped by our diversity policies, including our Board Diversity Policy. Our policy is to ensure that there is broad experience and diversity on the Board, and we ensure that all Board appointments are made on merit, assessing candidates against objective criteria. We are proud that 37% of our leadership team is female, which is above the UK market average and above the 33% target that is applied to large listed businesses in the UK.

“We are proud that 37% of our leadership team is female.”

Table K.**Aspiration:** Create the same opportunities and experience for everyone, delivering a more diverse workforce**By When:** 2025**Method:** Delivery and implementation of Diversity & Inclusion (D&I) strategy

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
Fair pay for all	Equal pay review completed annually	2019	Equal pay review completed annually	2021	Complete
	Achieve real living wage status		Maintain real living wage status		Accredited real living wage status
Principles and policies to achieve greater equality	Recruitment/ selection, reward and recognition, D&I, family friendly		Policies set	2021	Policies set
Unbiased selection in recruitment for all	% hiring managers with interview skills accreditation	0% (2019)	100%	2021	92%
Productive employment for persons with disabilities	Diversity messaging in recruitment advertising	Consistent diversity messaging in recruitment advertising	All recruitment adverts contain diversity messaging		Complete
	Number of relationships with external partners	Two relationships with external partners (2019)	Two local partnerships		One local partner in place, and second selected
Attract, develop, encourage and promote women	% women in leadership roles (L1-3)	41% at Simplyhealth compared to 33% occupations within the highest paid category of managers, directors and senior officials in UK labour market (2019)	The percentage of women in leadership roles (benchmark in line with UK labour market average – 33%)	2025	37% (Compared to the 2021 UK average 36.2%)
	% women in all roles	67% at Simplyhealth compared to 46% in UK labour market (2019)	The percentage of women in employment (benchmark in line with UK labour market average – 46%)		66% (Compared to the 2021 UK average 72.2%)

Table L.**Aspiration:** A recognised leading employer of young adults (18-24)**By When:** 2025**Method:** Encourage and nurture the employment of young adults (18-24) through various means including employer branding and social advertising

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
Young adults are recruited, trained and retained	% 18-24 year olds employed against total population	133 (14%) of 976 colleagues (2020)	15%	2025	7%
	% 18-24 year olds promoted or seconded	21% of all promotions and secondments (2020)	22%	2025	18%

SUSTAINABILITY CONTINUED

Supporting colleagues' health and wellbeing

We are passionate about safeguarding and supporting the mental and physical health of our people and we aim to always be a healthy workplace.

Table M. Supporting colleagues' health and wellbeing

Aspiration: To be acknowledged by both colleagues and partners, through the achievement of industry awards, as a healthy workplace

By When: 2023

Method: Annually survey the health and wellbeing of our colleagues. Design the appropriate initiatives to support both personal wellbeing goals and organisational-wide wellbeing areas identified. Educate on wellbeing issues via monthly webinars and wellbeing publications.

Goal	KPI	Baseline Measure	Target Measure	Date
Engagement of employees in wellbeing initiatives and programme	Annual ENERGISE YOU wellbeing survey	0% (2019)	79% response	2021
Deliver a mental health awareness programme for people managers and colleagues and measure impact	Deliver a mental health awareness programme for people managers and colleagues and measure impact	0% (2019)	100% Managers 42% of Colleagues attend Programme	2025
Deliver a comprehensive, yearly calendar of health and wellbeing events for all colleagues to meet needs identified through survey	Annual number of attendees engaging with face-to-face health and wellbeing initiatives	0% (2019)	50% employees	2021
Ensure we always support our colleagues' mental health	Number of Mental health first aiders in post	0 MHFA (2019)	58 Mental Health First Aiders	2021
Meet Mental Health Standards in the workplace	Measured and tracked by Wellbeing Questionnaire	In development (2019)	Peakon – Financial Services 'Mental Wellbeing' benchmark 7.7	2021

In January 2020, we launched our new Health and Wellbeing Strategy to better support our colleagues. This year we revised and adapted our strategy to reflect the changes in our operating context resulting from COVID-19. We continue to prioritise the health and wellbeing of our colleagues through ENERGISE YOU, our wellbeing programme which launched in September 2020 and continued in 2021. This bespoke programme has been designed by Olympic athlete Sally Gunnell OBE and award-winning employee wellbeing company Kamwell to help colleagues thrive at work and home, and provides a holistic overview to all things wellbeing. The programme consists of the following eight modules, each delivered by industry specialists:

1. Mental wellbeing
2. Managing stress
3. Optimising your energy
4. Habit formation
5. Financial wellbeing
6. Sleep
7. Nutrition
8. Exercise

The ultimate objective of ENERGISE YOU is to help colleagues to take control of their own health and wellbeing. The programme was designed to reflect the personal wellbeing priorities of our people, gathered via our annual wellbeing survey, completed by 75% of colleagues.

In addition to the ENERGISE YOU programme, this year we have also trained 30 mental health first aiders across the business. We continue to undertake regular colleague surveys to identify organisational wide wellbeing areas, and have a calendar of activities and educational sessions run via monthly webinars.

We are proud to have been recognised for our commitment to health and wellbeing with the following awards:

- Gold winner: Best Internal Communications, The Corporate Engagement Awards
- Silver winner: Internal Communications Campaign, CIPR Pride Awards 2021
- Finalist: Inspiring Wellbeing, Inspiring Workplace Awards
- Finalist: Best Mental Health Wellbeing Strategy, and Best Benefits to Support Employees during the Pandemic, Workplace Savings and Benefits Awards

Looking forward to 2022 and beyond, we have a series of goals in place to help us achieve our aspiration to be acknowledged by both colleagues and partners as a healthy workplace (see table M).

“In addition to the ENERGISE YOU programme, this year we have also trained 30 mental health first aiders across the business.”

2021 Year End results

75% response

94% Managers
45% Colleagues

46%

30

8.2

SUSTAINABILITY CONTINUED

Enhancing our training and education

We have a learning culture at Simplyhealth and we actively provide and promote learning opportunities for our people. This includes the launch of SimplyLearn, our new learning experience platform. SimplyLearn enables colleagues to access training at any time from any place, with 94% of registered users accessing the platform this year.

Table N. Enhancing our training and education

Aspiration: Promote learning opportunities creating the conditions to embed a learning culture

By When: 2025

Method: Personal development plans ('PDP'), Personal development – Learning Experience Platform, On the job training - CPD, policies, Levy spend

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
All colleagues have a PDP	Number of colleagues with PDP	2020	100%	2021	Delay in PM system going live until Q1 2022.
Colleagues engaging and completing learning on a LEP (learning experience platform)	% participation (LEP)	2020	90%	2021	99%
Embed a learning culture	% of colleagues completing CPD achieved yearly	2020	100%	2025	96%
Invest in apprenticeships	% spend of levy pot (Rolling 2 year cumulative)	33% (2020)	75%	2025	42%.

Happier and healthier customers

We exist to improve access to healthcare for our millions of customers. Our health plans support them, their families and their business with their everyday health concerns, as we believe that no one should go without the healthcare support they need.

Our approach

We are proud that we continue to play a part in supporting our customers' health. We understand and respond to the challenges they're facing in these uncertain times and continue to help them take responsibility for their personal health and the health of their family, employees, or patients.

Enabling more people to take proactive actions to improve their health

Over 18,000 customers have downloaded SimplyMe, our customer health app, in 2021 and accessed help to get active, sleep better and feel healthier. Customer satisfaction measurement (CSAT) remains very high with 74% of surveyed customers 'very satisfied'. Both Simplyhealth and Denplan Trustpilot scores have improved year on year, both at an all-time high at 4.6 and 4.1 respectively.

Moving into 2022, and in line with our ESG strategy set out earlier in this report, we are focused on setting new customer health outcome targets to enable more people to take proactive actions to improve their health.

“Over 18,000 customers have downloaded SimplyMe, our customer health app, in 2021.”

Our Purpose helps more than 2.3 million customers to access healthcare when they need it the most

Trustpilot scores in 2021 are 4.6 for Simplyhealth (2020 score: 4.4) and 4.1 for Denplan (2020 score: 3.5)

Group-wide Customer Satisfaction scores in 2021 standing at 74.6%

SUSTAINABILITY CONTINUED

From neighbours to the whole nation

Communities matter. That's why we're proud to work closely with people and charities at a local, regional and national level. Looking out for each other can be a big gesture, or a small offer of help. We're here for it all, with an aim to always do better.

Our approach

We support our communities in myriad ways, around two key areas of focus:

- Maximising value through our investment portfolio.
- Volunteering and giving.

We aim for an investment portfolio that not only delivers a return but also makes an impact into wider social and environmental areas. In addition, we also continue to invest our time and skills in support of charity partners and make financial donations to support organisations which share our values and support Our Purpose.

Our progress to date

We've continued to contribute to the community despite the challenges of COVID-19. We have joined Business in the Community (BITC), the Prince's Responsible Business Network, providing the opportunity to extend our impact and collaborate with many of our current, and potential future, major corporate customers who are prominent and long-term supporters.

This year, we maintained our support for Test Valley Borough Council in their pursuit of the redevelopment of Andover town centre.

Our land adjacent to Håmbleden House has also been included in the recent pocket park development. Most recently we have met with the Chair of the M3 Local Enterprise Partnership (LEP) and with the Council CEO and Leader, to press the case for financial support in the redevelopment of the town centre.

During the first half of the year, we also continued to store a fleet of community minibuses in our Alan Child House car park for a local charity that had not been operating during the pandemic.

Our progress has however been impacted by COVID-19. Restrictions have made colleague volunteering and fundraising very challenging this year, and as result we have not been able to meet our targets. We hope that as we continue to adapt to the 'new normal', we will be able to grow our support through an increase in volunteering hours and fundraising initiatives.

Over £626,000 donated to health and sport related charities of our £1m allocation for 2021, to support improved long-term health outcomes in the UK, matching our £1m allocation in 2020.

As stated earlier in this report, we are committed to pledging a minimum of £1m per annum to deliver Healthier Futures, and any underspend in 2021 will be placed in a Charitable Foundation Bank Account for donating in future years.

Maximising value through our investment portfolio

We aspire to have an investment portfolio that has positive social and environmental impacts. We hope to have 25% of our portfolio invested in an ESG enhanced fund by 2023. This is a challenging target and we are currently developing a plan to accelerate progress with this issue.

As set out earlier in this report (Investments page 14), we have moved funds from Schroder to create a £100m portfolio with Pimco Investment

Management. This portfolio is split with 50% in a low-risk credit portfolio and 50% in a pooled diversified credit fund. As part of the selection process for an investment manager, we considered their approach and credentials on ESG, and believe Pimco's ESG performance to be strong.

Supporting our communities through volunteering and giving

Living Our Purpose and being happy and healthy is more important now than ever before. We are committed to investing 10%, or a minimum of £1m, of our profit in healthcare community initiatives by 2030. By 2025, we aim to dedicate five years' worth of hours to charities annually (a total of 3,700 hours) with at least 50% of colleagues volunteering their time.

We are making good progress towards this aspiration. This year, over 10% of our total profits were invested in community initiatives with 94% supporting health related projects. Over the course of 2021 our colleagues have come together to support our local communities by giving their time, skills and fundraising support to a number of charity partners. We have donated £15,577 to charities on behalf of our colleagues through our matched funding scheme and our colleagues have raised over £36,475 for charities.

With communities continuing to be impacted by COVID-19, we have lent our support to schools, families, and individuals. In January, we gifted 200 Chromebook laptops to the Longmeadow Centre at Romsey Community Services to be distributed to families in need of equipment to enable online home schooling. At a time when school closures were necessary to control the spread of the pandemic it was important that the most disadvantaged children in our communities were not put at further disadvantage by loss of access to the means of learning in a digital classroom environment.

We also opened up our car park free of charge to Andover Primary Care Network, who were managing the COVID-19 vaccination centre, as well as anyone attending a vaccination appointment.

Table O. Maximising value through our investment portfolio

Aspiration: We aim for an investment portfolio that delivers a return but also makes an impact into wider social and environmental areas, in a way that manages the investments in a manner appropriate with the economic and market risks at that time

By When: 2023

Method: Selecting funds that while containing the appropriate risk and return, have an ESG focus above the market average

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End result
An investment portfolio that delivers a return but also makes an impact into wider social and environmental areas	Up to 25% of our investment portfolio have an ESG equity fund above market average – though this may reduce with market conditions	Whilst we are in ESG portfolios we are not delivering the ESG impact above market average (2020)	25% ESG enhanced fund	2023	Investment portfolio not currently invested in an ESG equity fund.

Table P. Supporting our communities through volunteering and giving

Aspiration: Invest 10% of profit by 2030 in community investment

By When: 2030

Method: Investing a proportion of our profits to access healthcare community initiatives that provide support where the NHS cannot

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
Increase investment of profits in healthcare community initiatives	% of profits invested in community initiatives	10% (2018)	10%	2030	>10%
Align community investments with corporate purpose	% of investment supporting health related projects	56% (2018)	80%	2021	94%

Table Q.

Aspiration: Inspiring personal development and fulfilment by supporting our colleagues to volunteer time and skills with local charities and matching any fundraising they undertake. Providing five years' worth of human resources to local charities every year.

By When: 2025

Method: Learn | Give | Earn – enabling colleagues to volunteer at local charities and fundraising through sponsorships by match funding both types of activity

Goal	KPI	Baseline Measure	Target Measure	Date	2021 Year End results
Double the number of colleagues who volunteer in local communities	Total employee hours dedicated to volunteering	1,800 hours (2018)	3,700 hours	2025	360 hours (*COVID under reporting)
	% of employees volunteering	20% (2018)	50%	2025	6.8% (*COVID under reporting)
Increase colleague charity donations	Total employee donations and fundraising for charities	£50,000 (2018)	£100,000	2025	£36,475.52
	Total match funding per annum	£25,000 (2018)	£50,000	2025	£15,577.85

SECTION 172 STATEMENT AND STAKEHOLDER ENGAGEMENT

Stakeholder engagement

Section 172(1) Statement

By aligning all our decision making to the vision, values and purpose of the Company alongside strategic priorities and due consideration of all stakeholders, we strive to achieve consistency in all of our decisions. We review the principal stakeholders on an annual basis and throughout the year when reaching decisions, considering whether there are any additional groups whose interests may be related to the Company’s operations. Our key stakeholders are listed below and we explain why we consider them to be an important stakeholder, and how we engage with each of them.

Colleagues

Why colleagues are a key stakeholder

Our people are fundamental to the successful delivery of our plan. The health, safety and wellbeing of our employees is considered as part of all key decisions and we strive to manage our people’s performance and personal development, whilst continuing to act as a responsible employer in our approach to the pay and benefits our employees receive.

How we engage with our colleagues

We engage with our employees throughout the year through our internal engagement surveys, the results of which are shared with all colleagues. Colleagues also have the opportunity to anonymously open two-way dialogue with senior management to explore any issue, or area of interest. Survey results are monitored and reviewed at Board level on a regular basis.

Full details of how we engage with our colleagues, in particular in relation to the new Smart Working arrangements, is included on page 23 of the Sustainability Report.

Customers

Why customers are a key stakeholder

Customers’ health and wellbeing is Our Purpose; they are the very reason we’re here, helping them to navigate a fast-changing health landscape, maintain their personal everyday health and making it easier for them to access the healthcare they need, when they need it. Their needs are at the forefront of our business plan decisions.

How we engage with our customers

We work with our customers to ensure we continue to deliver on Our Purpose through extensive research with our customer panel; providing us with a clear insight into their healthcare priorities and needs. By continuously engaging with our customers we are able to measure their experience across the Simplyhealth Group, quickly steering us to the areas where we need to improve and how we can address customers’ evolving needs.

Suppliers and Practitioners

Why suppliers and practitioners are key stakeholders

We value all our business relationships and have long term contracts with our key suppliers, some of which are material outsource arrangements.

The delivery of everyday healthcare relies on a strong network and supply of highly competent healthcare practitioners. We develop quality delivery partnerships with dentists and other private medical facilities and services.

How we engage with our suppliers and practitioners

Through strong and actively engaged relationships we can ensure our operational activities are working efficiently and effectively and internal projects are delivered on time, to a high quality, at an efficient cost. We provide training and CPD support to practitioners as well as helping them achieve and maintain quality standards and accreditations.

Community and Environment

Why the community and the environment are key stakeholders

It's always been in our DNA to support health-related charities and community work. Our 2021 business plan considered how we continue to support this work through the delivery of our Healthier Sustainability Plan and responsible investment strategy.

How we engage with the community and on environmental issues

For full details on how we interact with communities and with stakeholders on environment issues, please see pages 18 - 21 of our Sustainability Report.

Regulators

Why regulators are key stakeholders

Doing the right thing and acting with integrity is core to our culture. We operate within a robust governance and risk management framework which links to the regulatory environment in which we operate, including the requirements of the UK financial services regulators and the Solvency II Directive. Business strategy, decision-making and capital management decisions are all made with reference against this framework to ensure ongoing compliance.

How we engage with our regulators

We have proactively engaged with regulators on key strategic decisions and encourage and welcome an open dialogue. Furthermore, we aim to ensure we meet the expectations of a modern corporate citizen, through the responsible, and proactive, application of legal, regulatory, environmental and ethical practices.

STAKEHOLDER ENGAGEMENT CONTINUED

Principal decisions

The Board considers 'Principal Decisions' to be those decisions which have significant long-term implications and consequences for the Company and/or its stakeholders to distinguish these from the normal, ordinary course decision-making processes the Board engages in.

By understanding the stakeholders and their interests, the Board consider that they have both individually and collectively through exploration and debate been able to factor their interests into decision making throughout the year and ensure that any decision taken is one which is most likely to promote the success of the Company in line with the Directors duty under S172 of the Companies Act 2006.

To the right are some examples of principal decisions that have been taken during 2021, and how stakeholders were considered as part of the decision-making process.

Decision:

Appointment of a new CEO and two new non-executive directors and additions to the senior management team.

In July 2021, we introduced a new Smart Working Guide, which enabled colleagues to continue homeworking. As a result, we reduced our number of offices from four to three buildings and are looking to make further reductions.

In December 2021, we undertook a two-year review of how our customers have been impacted by COVID-19 restrictions and considered a premium rebate for customers. During this period customer claims for healthcare declined as health service providers were forced to close, except for emergency treatment. The Board of Simplyhealth has responded by announcing that a proportion of premiums paid will be refunded to paying customers who held a cash plan product at the start of the first national lockdown on 23 March 2020, with £9m being returned to our direct customers.

We have established Simplyhealth Ventures, designed to drive innovation through our investments in technology-led healthcare start-ups.

We have decided to divest our portfolio of dental joint ventures held by Simplyhealth Partnerships Limited (SPL), with the objective of finding a like-minded new investor; one who will continue to work in partnership with the dental partners and retain the Denplan relationship and support in practices.

We have reviewed and updated our investment strategy from a Core Fixed Income Fund ('CFIF') to 50% in a low-risk credit portfolio, with 50% moved to a pooled diversified credit fund managed by Pimco Investment Management.

As part of our significant focus on ESG matters, we discussed and accepted a proposal to update the Company's articles of association to incorporate the amendments necessary to satisfy BCorp status. We submitted our impact assessment in December and hope to receive certification in 2022 after which time approval will be sought to amend our articles.

Stakeholder considerations and outcomes:

Customers	The appointments brought new skills and insight and further improved the diversity of our Board and senior leadership team. This has provided both a fresh and diverse aspect on the core business, combined with the necessary experience to support our investment into new ventures for members and customers.
Regulators	Ensuring new appointments meet the requirements set out by the regulator to take on these leadership positions.
Our colleagues	Feedback from three Future of Work colleague surveys provided insight into colleague preferences for future working. We continue to proactively seek feedback to inform our longer-term plan. Our Smart Working Guide has ensured colleagues continue to be positively engaged, whilst working within a safe environment.
Environment	The decision to reduce our office space will have a positive impact on the environment by reducing our carbon footprint.
Customers	We have continued to maintain customer service levels since the start of the pandemic, despite our colleagues working from home.
Customers	Simplyhealth will always strive to do the right thing for our customers. The premium refund is the latest in a significant range of measures we have delivered to ensure our customers are properly supported and fairly treated.
Regulators	The announcement, together with the measures announced in 2020, ensures that we remain compliant with current FCA guidance and our values of treating customers fairly.
Customers	The creation of Simplyhealth Ventures will ensure we invest in businesses where there is mutual value for such business and Simplyhealth. Benefits will be seen by our customers from new and enhanced technology and initiatives.
Customers	Customers are increasingly looking to interact with our business in a digital environment. Divesting our portfolio of dental joint ventures will allow the Group to focus on enhancing our core business offering, delivering a better customer experience.
Colleagues	The impact on colleagues was considered. For those who are part of the joint ventures, a smooth transition is important and therefore a like-minded investor will be sought to continue the model. For colleagues within the rest of the business, this will allow for a clearer strategy and direction for the core business.
Practitioners	The impact on Practitioners was considered, and it was recognised that the continuation of care for dental partners was a key consideration. This decision will provide stability and allow for a clearer strategy to be developed.
Customers	Improved investment returns will allow customers to benefit as we reinvest into the core business to deliver better products and services.
Suppliers	The impact on Suppliers was considered, and it was deemed there would be no material impact on any of our existing suppliers.
Regulators	We assess the impact on our solvency position, and continue to maintain a healthy solvency ratio. See page 11 for more information.
Customers	We acknowledge the ever increasing importance of sustainability for business and the increased focus on ESG matters by all our stakeholders from our customers to our regulators, to our colleagues and to the communities that we serve.
Regulators	
Colleagues	
Community	
	We are committed to our Purpose and to meeting the highest standards of sustainable business. Certified B corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose.

RISK MANAGEMENT

Risk management framework

The Board and the Executive committee ('Exco') consider risk management to be a fundamental part of Our Purpose and a significant aspect of corporate governance. The effective management of risk is central to our culture and decision-making and provides an essential contribution towards the achievement of our strategy.

Oversight

The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems. The Board is responsible for determining the nature and extent of the principal risks the Simplyhealth Group is willing to take in achieving its strategic objectives, including the setting of the Simplyhealth Group's overall risk appetite. The Board delegates oversight and scrutiny of risk management to the Risk and Capital Committee, who regularly report up to and provide recommendations to the Board.

The day-to-day responsibility for implementation and maintenance of the internal control system rests with Simplyhealth's various senior management functions as defined under the Financial Conduct Authorities ('FCA') Senior Managers and Certification Regime ('SMCR'). Second Line oversight and challenge of Simplyhealth's risk management and reporting processes rests with the Group Risk function. The consolidated risk report produced by this function is firmly embedded in the management and Board reporting. This report enables the monitoring of risk-taking measured against agreed risk limits, using a suite of Key Risk Indicators linked to risk appetite.

We have a comprehensive Enterprise Risk Management framework ('Risk framework') that stipulates the minimum standard for risk management and internal control for the Simplyhealth Group, and for all categories of risk. In turn, this enables reasonable assurance to be provided to the Exco, Board and external stakeholders that Simplyhealth is achieving its risk management and internal control objectives. The effectiveness of the Risk framework is independently assessed as part of the programme of activity carried out by the Internal Audit function in the Third Line of defence, the results of which are reported to the Audit Committee.

Risk management approach

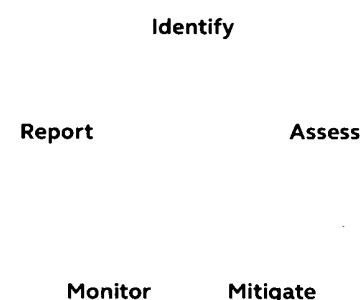
We adopt a responsible and balanced approach to risk-taking, so that significant risks are identified and managed. This supports long-term sustainability and growth and enables the Simplyhealth Group to respond dynamically to strategic opportunities, whilst maintaining an appropriate and proportionate approach to running the business.

Our approach to risk management consists of the following components:

- Agreement of Board risk appetite statements in relation to defined risks, which sets the principles, preferences and high-level measures for the level of risk the Simplyhealth Group is willing to accept.
- A risk management system, which ensures that all principal and enterprise risks are identified, assessed and managed in accordance with the Enterprise Risk Management framework. The Simplyhealth Group's risk management policies are reviewed at least annually.
- Regular risk monitoring and reporting, ensuring any concentration of risk, entity or function is assessed and management action agreed on a timely basis.
- An effective risk and control culture, which is focused on the sustainability of Simplyhealth, risk awareness, ethical behaviour and the fair treatment of customers and employees.

“We have a comprehensive Enterprise Risk Management framework that stipulates the minimum standard for risk management and internal control for the Simplyhealth Group and for all categories of risk.”

Enterprise Risk Management framework



Our Risk framework links our operating environment, business strategy, decision-making and capital management, alongside defined risk appetites.

The framework sets out the processes involved in the identification, assessment, mitigation, monitoring and reporting of risk, required to meet the Simplyhealth Group’s commercial, strategic and regulatory objectives, including the requirements of the UK financial services regulators and the Solvency II Directive.

The responsibilities for overseeing each of our principal and enterprise risks is aligned to our new Performance & Governance framework, as detailed in our Corporate Governance section, with each committee having a responsibility for ensuring the effective oversight of nominated risks.

Three lines of defence

The Simplyhealth Group has adopted the ‘Three Lines of Defence’ operating model to define risk management accountability within roles and responsibilities.

Third line

3
Internal audit

Second line

2
Monitoring and reporting (Risk & Compliance)

First line

1
Daily risk management and ownership of business practices

First line of defence

- Performs risk management activities in line with risk standards, including ensuring adequate assessment of both the risk and control strategy.
- Includes the day-to-day management of risk as well as risk-based decision-making within risk appetite.
- Establishes and reports against a range of key risk and control indicators.
- Proactively monitors the risk and control environment relevant to their part of the business.

Second line of defence

- Responsible for developing and overseeing the Simplyhealth Group risk management strategy, the framework for identifying and managing risk and the risk standards which support the Simplyhealth Group operating within its risk appetite.
- Supports the setting of Board Risk Appetite and monitors business adherence to the associated statements and measures.
- Acts as a business partner, helping the business analyse risk-taking against risk appetite to better support the strategic direction of the business.
- Regulatory and legislative horizon scanning, the interpretation of new and changed requirements, and advice and challenge to the organisation regarding compliance risk.
- Monitors the key processes, risks and controls being managed and delivered by the First line.
- Performs evaluations of risk management effectiveness against a range of external benchmarks.

Third line of defence

- Provides independent, objective assurance over the effective and efficient operations of the roles, responsibilities, and activities of the First and Second lines.

RISK MANAGEMENT CONTINUED

Principal risks and uncertainties

Developments in the risk and control environment

To enable Simplyhealth to respond to opportunities and threats in an efficient and informed manner, we continuously review and evolve our risk and control environment, ensuring it remains aligned to our strategic direction and external risk environment.

During 2021, improvements have been made to the Risk framework, including embedding standardised risk registers, improving risk reporting, and developing Simplyhealth's risk appetite statements and metrics to align to the emerging strategy. We have enhanced how we capture incident information, using a new incident management portal open to all staff to support our incident response and root cause analyses procedures. We have also rolled out a new suite of regulatory compliance training for all staff.

In line with regulatory requirements, we have delivered improvements to our Product Governance framework and we are delivering the requirements to meet other key regulatory obligations such as the PRA Operational Resilience requirements.

In addition, we are undertaking a full review of our critical controls and have designed a revised Internal Control framework to enhance our visibility of the performance of our critical controls. This enhanced framework, which will be completed Q1 2022, will support increased visibility on the effectiveness of our critical controls and enable swift remediation where necessary.

Principal risks and uncertainties

The overall risk profile is determined by:

- the environment in which Simplyhealth does business; in particular competitor activity in the healthcare market, the changing health needs and claiming behaviour of customers, including exceptional circumstances throughout the pandemic and beyond, regulatory changes and an uncertain economic environment; and
- the business strategy, which focuses on developing existing businesses, creating new opportunities, and delivering sustainable returns, with a focus on developing outstanding customer relationships with products and services that meet our customers' needs in a changing healthcare market.

The primary risk exposures under Solvency II are underwriting risk, market risk, credit risk, insurance operational risk, liquidity risk, non-insurance profit risk and non-insurance operational risk. Further details on how the Simplyhealth Group manages these risks are given in note 4 to the financial statements.

To ensure that the key risks faced by Simplyhealth are identified and managed within risk appetite, we have assessed and categorised our exposures into four principal risks, underpinned by a number of more granular enterprise risks.

The definitions of our four principal risks are outlined below:

- **Strategic Risk:** The risk of significant loss or damage arising from business decisions impacting the long-term interests of the business, or from an inability to innovate and adapt.
- **Financial Risk:** The risk of Simplyhealth having inadequate earnings, cash flow or capital to meet current or future requirements and the delivery of the strategy.
- **Operational Risk:** The risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events.
- **Regulatory and Conduct Risk:** The risk that the execution of Simplyhealth's business activities leads to non-compliance with regulation or legislation, and/or unfair customer outcomes.

Improving Worsening Stable

Our principal risks and the most material associated 'enterprise risks', which if crystallised, could adversely impact on the delivery of the strategy, are outlined below.

Principal Risks	Key Enterprise Risks	Mitigation	Change in year
Strategic	<p>Long Term Sustainability & Viability:</p> <p>There is a risk that we fail to generate business volumes or reduce costs to ensure we maintain capital and deliver on our purpose.</p>	<p>We recognise that in order to remain relevant for our customers, we need to continue to evolve our propositions to meet the health needs of our customers for the future and in doing so reduce our cost to serve. We are transforming the business via new propositions and investments, with significant technology change that will deliver increased automation over the planning period.</p>	
	<p>Product Demand:</p> <p>There is a risk that we fail to deliver innovative or desirable products and services as a result of failing to capitalise on opportunities or responding to threats.</p>	<p>We continue to invest in our core propositions, including the development of the cash plan and Denplan businesses, underpinned by market research and consumer insights, which will be launching during 2022. In addition, during 2022 and beyond we are making a series of investments in new business opportunities to further enhance our offering for customers.</p>	
Financial	<p>Economic Recession:</p> <p>There is a risk that the UK economy falls into recession, negatively impacting income, increasing costs, and creating barriers to deliver on our strategy.</p>	<p>Whilst we expected the COVID-19 pandemic to have a significant impact on the economy, to date this has not adversely impacted our business. We run a series of stress scenarios to assess the impact of a deterioration in the economy on our financial performance, which are tracked to allow management to act where appropriate. We offer support to financially vulnerable customers where appropriate. We continue to assess the risks to the economy and mindful of the emerging inflation risks and the impact that will have on the business.</p>	
	<p>Claims Uncertainty & Volatility:</p> <p>There is a risk that we are unable to predict our future claims experience, due to cost and utilisation deviating from historical performance.</p>	<p>We monitor claims volumes closely and conduct stress tests to ensure that we can meet our claims liabilities even in severe scenarios. We have seen increased claims inflation and volatility over the last 12 months; however, the risk has stabilised. Where appropriate, and whilst maintaining our focus on ensuring fair customer outcomes, we will reprice our products to reflect this increased cost.</p>	

RISK MANAGEMENT CONTINUED

Improving Worsening Stable

Principal Risks	Key Enterprise Risks	Mitigation	Change in year
Operational	<p>Resource Capability & Capacity:</p> <p>There is a risk that we fail to recruit, develop, reward, and retain the required talent to deliver on our strategy.</p>	<p>During the year we have seen increased competition for key capabilities. New hybrid working practises create opportunities for us to hire key individuals from further afield, but they also pose threats to our resource base. As we execute our strategy, we will require different skills and as a result we continue to review our requirements and processes. We are also mindful of the risk the pandemic may increase staff illness and this is being monitored closely.</p>	
	<p>Legacy Technology:</p> <p>There is a risk of compromise of customer or employee data as a result of successful cyber attack or external threat.</p>	<p>We continue to deliver our simplification programme, which will replace or upgrade our IT infrastructure over the coming three years. Key to this is an upgrade of our insurance policy administration platform. In addition to improving resilience, the programme will reduce cost and complexity which will help enable future growth. As part of this programme, we are moving more of our infrastructure into the cloud. Whilst this reduces the risk of legacy technology, we are mindful that the services result in a differing risk profile that will need to be managed appropriately.</p>	
	<p>Data Breach:</p> <p>There is a risk of compromise of customer or employee data as a result of successful cyber-attack or external threat.</p>	<p>We continue to actively monitor our internal and external security threats to ensure we safeguard our customer and company data. Actions taken to reduce our reliance on legacy technology, coupled with controls to support our hybrid-working, are key areas of focus. In addition, we are ensuring we are able to quickly respond to patching requirements from our software partners. We continue to proactivity monitor potential technology vulnerabilities of Simplyhealth and our partners.</p>	

Principal Risks	Key Enterprise Risks	Mitigation	Change in year
Regulatory & Conduct	<p>Non-compliance with material regulation and/or laws:</p> <p>There is a risk that we do not maintain compliance with regulatory requirements.</p>	<p>We have processes in place to help ensure we remain compliant with key regulatory and legislative requirements. We continue to respond to the volume of regulatory changes. We have a robust regulatory horizon scanning process to ensure we are able to respond appropriately to current and emerging regulations. We have delivered enhancements to our product governance framework to ensure we deliver fair customer outcomes and are able to identify and respond to vulnerable customers in a timely manner.</p>	

Climate change risk

Climate change risk continues to be monitored by the business and the Board through the Risk & Capital Committee. During the year we have completed a full assessment of the financial risks of climate change on our business model, products and services and continue to keep this under review. We do not consider that climate change will have a material impact on the delivery of Simplyhealth’s strategy in the short to mid-term, noting the flexibility of our products and the low degrees of climate risk in our supply chain and investment portfolio.

We are, however, embedding the oversight and ongoing monitoring of climate risk into our performance and governance framework, in accordance with regulatory requirements, to ensure that climate change considerations are reflected and acted upon as our strategic direction and/or risk exposures evolve. We have set out more detail about our intention to meet TCFD requirements within the Sustainability section of this report.

Own Risk and Solvency Assessment ('ORSA')

We calculate our solvency requirement under the Standard Formula Solvency Capital Requirement, which we believe is an appropriate reflection of our risk profile and therefore is the basis of our risk appetite.

The ORSA is used to assess the capital requirements of the Simplyhealth Group and validate the appropriateness of the Standard Formula Solvency Capital Requirement through the production of a bespoke economic capital assessment. The ORSA considers the future development of the organisation’s solvency position and risk profile over its business planning period under a central set of assumptions that reflect the Board’s best estimate of the performance of the organisation, and relevant changes to its external business environment. The ORSA is designed to provide the Board and key stakeholders of the business with a comprehensive understanding of Simplyhealth’s financial resilience, following consideration of a range of plausible, yet severe scenarios relating to the achievement of the company’s strategic ambitions and demonstrates that Simplyhealth remains well capitalised throughout the planning period.

The ORSA is an important part of the strategic and decision-making process as well as our Risk framework. The ORSA model has been used to inform business decisions throughout the year, most notably the capital impact of the investment strategy.

We determine our own solvency needs over the business planning period by reference to the projected own funds, future capital requirements as determined by the SCR and ORSA, and a capital buffer aligned to the Board approved risk appetite.

The Board plays an active part in the development of the ORSA, which includes challenge and approval of the severe but plausible and reverse stress testing scenarios. A full report detailing the outcomes of those processes is produced for review and approval by the Board as a minimum on an annual basis and where there are any material changes to the business model.

CORPORATE GOVERNANCE

Board and Committees

Simplyhealth Group Limited is a company limited by guarantee.

Our system of governance is designed to ensure that we are well positioned to continue to deliver Our Purpose while effectively managing risk.

This system is reviewed annually by the Board. As Simplyhealth has neither shareholders nor a requirement to distribute profits to members, the roles of voting members and the Board of Directors in providing effective governance are particularly important.

Our decision-making and organisational structure supports the effective governance of the business in meeting our strategic goals, our delivery of excellent customer service, and our adherence to regulations. The governance model is designed to be proportionate to the nature, scale, and complexity of the risks we face.

The role of the Board

The Board is collectively responsible for ensuring Simplyhealth is successful for the benefit of our stakeholders, setting Simplyhealth's strategic direction, providing entrepreneurial leadership, and overseeing the effective management of key risks faced by the business.

As set out in a Matters Reserved for the Board policy, the Board is accountable for ensuring effective governance, overseeing financial control of the business, ensuring that investments are managed properly, that all material business risks are managed, and that funding is allocated efficiently and according to capital adequacy requirements. It is also accountable for ensuring that we stay true to Our Purpose.

The Board assesses and regularly reviews the ethical and economic position of the business and considers significant changes affecting factors such as the organisation, operations, customers, external environment, the financial position and risk profile.

Board composition

On 31 December 2021, the Board comprised of three executive directors and six non-executive directors, including a non-executive Chairman. During the year, we appointed Sneh Khemka as our new Chief Executive Officer, Nicholas Potter as our new Chief Financial Officer and Duane Lawrence

and Martin Stead as non-executive directors. The Board periodically reviews its composition and succession planning framework to ensure that appointments create an appropriate mix of skills and experience, and a level of diversity and independence that supports the Simplyhealth Group's objectives.

Our committee structure

To assist the Board in carrying out its duties, the Board delegates some of these responsibilities, although not accountability, to a number of committees, as outlined below, (the 'Board Committees') and to the Chief Executive Officer. The Board Committees operate under delegated authority from the Board, with specific terms of reference in force for each committee, enabling specific matters to be considered in depth and reported back to the Board and, where appropriate, making recommendations for final decision by the Board.

“Our decision-making and organisational structure supports the effective governance of the business in meeting our strategic goals, our delivery of excellent customer service, and our adherence to regulations.”



Board Committees and Responsibilities

Remuneration Committee	Governance & Nominations Committee	Audit Committee	Risk & Capital Committee
Chaired by M A Hall	Chaired by G Baldwin	Chaired by T Dunley-Owen	Chaired by J Knott
<ul style="list-style-type: none"> Developing and recommending to the Board the remuneration principles for the Chairman, Chief Executive, executive directors, Company Secretary and the Executive Leadership Team; recommending to the Board the total individual remuneration packages of the Chairman, executive directors and Company Secretary. The Committee also agrees the total individual remuneration packages for the Executive Leadership team, recommends to the Board the principles and design of any performance related pay scheme for the executive directors and Executive Leadership Team and approves payments to Executive Leadership Team under said scheme. The Committee recommends to the Board payments under any such scheme for executive directors and the Chief Executive. Setting and reviewing the principles and parameters of the remuneration policy for the whole Group. 	<ul style="list-style-type: none"> Evaluating and monitoring the governance framework, including the governance structure and governance principles, to ensure they meet the Group’s current and future strategic needs and support best practice. This includes recommending candidates for appointment to the Board to ensure that collectively, we have the balance of skills, experience, independence, knowledge and diversity appropriate for Simplyhealth’s operations and the regulated environment in which it operates. 	<ul style="list-style-type: none"> Reviewing the effectiveness of the system of control for managing financial and non-financial risks. Monitoring the integrity of the financial statements including significant reporting judgements contained within them. Reviewing and monitoring the effectiveness and objectivity of both the internal and external audit function and reviewing their reports and recommendations. Reviewing the effective implementation and operation of regulatory requirements and obligations. Reviewing the reporting, recommendations and effectiveness of the Chief Actuary and management responses to issues raised. 	<ul style="list-style-type: none"> Overseeing, understanding and reviewing the Group’s risk profile and advising the Board on principal risk exposures and future risk strategy, including recommending the levels of key risk appetite for the business. Ensuring that future capital requirements of the business are appropriately and adequately considered and planned for over the business horizon. Overseeing and advising the Board on the embedding and maintenance of a suitable risk management culture in Simplyhealth in accordance with the risk management framework.

CORPORATE GOVERNANCE CONTINUED

Chief Executive Officer delegated authority

The Board delegates the responsibility to lead Simplyhealth to the CEO, and the CEO in turn delegates defined levels of responsibility for strategic and operational decision-making and oversight to members of the Exco via a robust operational governance structure.

The CEO’s authority includes directing and promoting the successful operation and development of Simplyhealth, implementing the strategy set by the Board to deliver Our Purpose, in a way that is consistent with our values and risk appetite.

Overall responsibility for defined areas of business activity sits with a number of senior managers within Simplyhealth, who have been formally approved by the PRA and/or FCA in relation to their specific roles.

Executive committee

The Exco now comprises the CEO, Chief Financial Officer, Chief Commercial Officer, Chief Operating Officer, Chief Risk Officer, Chief People Officer, Chief Digital and Technology Officer, Chief of Staff & Head of Strategy and the General Counsel & Company Secretary.

Exco responsibilities include:

- Formulating (for Board approval), reviewing, communicating and managing the delivery of the Simplyhealth Group’s strategy, taking into account Our Purpose, risk profile, capital requirements and solvency position.
- Leading performance across the Simplyhealth Group, including operational, financial and people matters, reporting results to the Board and its committees as required.
- Maintaining an effective organisational structure, which supports delivery of strategic and operational plans and manages succession planning for key roles.
- Ensuring the Simplyhealth Group maintains an effective internal control framework, which supports compliance with relevant legislation and regulations.
- Monitoring and reviewing the risk profile of the Group, such that this enables it to mitigate significant strategic, financial, operational and regulatory and conduct risks, in line with the Simplyhealth Group’s risk appetite, reporting these to the Board as required.
- Being role models for the business, promoting and displaying the values and behaviours needed to create the right culture in Simplyhealth.

Performance & Governance framework

During the year we have reviewed and enhanced the Executive Performance & Governance Framework to ensure that our Exco structure:

- supports the successful and timely execution of the strategy and business plan;
- enables effective and demonstrable decision making and risk oversight;
- supports engagement and disciplined empowerment across the leadership population; and
- is appropriate for an organisation of our size and complexity.

We have refreshed and repurposed the structure of our formal executive committees, setting clear responsibilities and escalation routes, implementing new standards for proposals to support effective decision-making and performance, and have begun the development of new management information and reporting across the executive committee structure. The revised structure is outlined below.

Executive Committee

Weekly Trading Committee

Operations Committee

Data Governance Committee

Finance Committee

Customer Committee

Portfolio Investment Committee

Underwriting Governance Committee

Chief Risk Officer delegated authority

The Chief Risk Officer (CRO) leads the Group Risk and Group Compliance functions. The CRO has a formal reporting line to the CEO, but there are open communication lines with the non-executive directors. The CRO has private meetings with the Chair of the Risk & Capital Committee and Chair of Audit Committee without the presence of executive directors.

Group Risk function

The Group Risk function is responsible for developing and overseeing the framework for identifying and managing risk across the Simplyhealth Group.

The Group Risk function is responsible for ensuring the Board has visibility of the key risks which the Simplyhealth Group is subject to, which is facilitated on a quarterly basis with a formal risk report presented to the Risk and Capital Committee. The Group Risk function owns and manages the delivery of the ORSA.

The Group Risk function is also responsible for managing the Simplyhealth Group's exposure to Fraud and Financial Crime.

“We have refreshed and repurposed the structure of our formal executive committees, setting clear responsibilities and escalation routes, implementing new standards for proposals to support effective decision-making and performance.”

Group Compliance function

The Group Compliance function is responsible for the identification, interpretation, and assessment of emerging and current regulatory, conduct and data protection risks, which may impact the Simplyhealth Group. The possible impact of changes to the regulatory and legal environment is considered on an ongoing basis and reported to the Executive Committee, Audit Committee and Board.

Group Compliance owns the Compliance Monitoring Plan, which details the schedule of activities the team undertake to provide assurance to the Board and relevant senior managers that the risks are being appropriately managed. The plan, which is approved and overseen by the Audit Committee, enables the Group Compliance function to provide oversight of key compliance changes driven through regulatory change to ensure fair customer outcomes and regulatory adherence by the business.

Internal Audit function

The Internal Audit function provides independent, objective assurance to the Board, the Audit Committee, and all levels of management on the internal control environment at Simplyhealth.

The Internal Audit Charter provides the framework for achieving this by setting out the objectives, scope, responsibilities, authority, independence, and accountability for the Internal Audit function.

The Internal Audit function owns the Internal Audit Plan, which is approved and overseen by Audit Committee. The plan articulates how the Internal Audit function will provide assurance over the effectiveness of key processes, systems, and controls.

To ensure we maintain sufficient skills and experience within the Internal Audit function, we have outsourced the role of Head of Internal Audit (HoIA) to an external party. The Head of Internal Audit is supported by an internal team which includes a Deputy Head of Internal Audit.

The HoIA formally reports to the Chair of the Audit Committee and there are open communication lines between the HoIA and non-executive directors. The HoIA has private meetings with the Chair of the Audit Committee and non-executive directors without the presence of executive directors. There is an administrative link to the CRO but, to avoid any conflicts of interest, the CRO has no day-to-day involvement in the activities of the team.

The Strategic Report was approved by the board of directors and signed on their behalf,



Dr Sneh Khemka
Chief Executive Officer
31 March 2022

DIRECTORS' REPORT

The directors present this report together with the Strategic Report, Financial Statements and Auditor's Report for the year ended 31 December 2021.

Directors

The directors who served during the year and up to the date of approval of these financial statements were:

R Abdin
Chief Executive Officer
(resigned 1 April 2021)

G Baldwin
Non-Executive Chairman

D J Beaven
Chief Financial Officer
(resigned
10 November 2021)

T Dunley-Owen
Non-Executive

R Gillies
Chief Operating Officer

M A Hall
Non-Executive

S Khemka
Chief Executive Officer
(appointed 1 April 2021)

J Knott
Non-Executive

D S Lawrence
Non-Executive
(appointed
1 September 2021)

J N Maltby
Non-Executive (resigned
10 June 2021)

N J Potter
Chief Financial Officer
(appointed
10 November 2021)

M C Stead
Non-Executive
(appointed
1 September 2021)

S Khemka

J Knott

M A Hall

N J Potter

R Gillies

D S Lawrence

Secretary

The Company Secretaries who served during the year were:

G Baldwin

T Dunley-Owen

M C Stead

J Jansen-Alder
(resigned
28 February 2021)

C Moroz
(appointed 9 June 2021
and resigned
27 July 2021)

D Pugh
(appointed 27 July 2021)

Directors' report disclosures

As permitted by section 414C (11) of the Companies Act 2006, certain information is not included in the Directors' Report due to its inclusion in the Strategic Report. This information is:

- Principal activities of the Company
- Business review and outlook
- Principal risks and uncertainties
- Employment policies, including those relating to disabled persons and future developments
- Statement on engagement with suppliers, customers, regulators and others in a business relationship with the Company
- Research and development, with reference to investments made on technology.

The Simplyhealth Group's financial instruments comprise its financial investments, cash, and various items arising directly from operations such as insurance and other debtors, technical provisions and creditors. The main risks to which the Simplyhealth Group is exposed are insurance risk, operational risk, liquidity risk, credit risk and market risk. The Simplyhealth Group's approach to management of these risks is disclosed in the Strategic Report with further information contained in note 4 to the accounts.

Going concern

The directors have formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Company, and the Simplyhealth Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of these financial statements. We retain a strong capital position in business as usual and under stressed scenarios. We are closely monitoring the ongoing impact of the COVID-19 pandemic on all aspects of our business, including how it will impact our customers, employees and our other key stakeholders. Full details of our assessment of the business impact during 2021 is detailed in the Business Review section of the Strategic Report on pages 8 - 15.

In addition, the assessment concluded that like any business, future performance will be impacted by the general macroeconomic conditions.

Post-Balance Sheet events

We are now in the process of selling Simplyhealth's investing subsidiary Simplyhealth Partnerships Limited, with the aim for this to be completed in 2022.

Tax risk management

Simplyhealth's Board sets the tax risk appetite for the Simplyhealth Group. Our risk management strategy sets out the process for the assessment, monitoring, reporting and escalation of risks and is overseen by the Risk & Capital Committee. Simplyhealth's leadership team and business leaders are accountable for ensuring that all commercial decisions are made in line with Simplyhealth's risk appetite. We currently adopt a low risk approach and ensure that we are compliant with all applicable laws and practices.

The business will engage with the tax team when making commercial or structural decisions. Our Group tax team determines, in each case, whether the technical tax implications of a decision are understood internally, or whether specialist external advice is needed. External advice may be sought in areas relating to new markets and services, or where there is uncertainty as to the application or interpretation of tax law. A specialist review of all significant tax calculations and tax-affecting accounting positions is undertaken annually by external consultants prior to filing the returns. Any concerns or significant tax risks and developments are escalated through the Senior Accounting Officer reporting and monitoring process.

Our tax team monitors and informs the business of regulatory and legislative change that affect the Simplyhealth Group, engaging with expert advisors as required to ensure we are aware of developments in compliance requirements and government guidelines, enabling us to maintain the correct application of legislation and appropriate use of government tax incentives and reliefs.

DIRECTORS' REPORT CONTINUED

Relationship with HMRC

We have been awarded Low Risk status by HMRC since 2010 and we wish to retain this status. In support of this, we aim to interpret the UK tax laws in a way consistent with a relationship of co-operative compliance with HMRC. Further, we aim to maintain our overall relationship with HMRC in an open and transparent manner, ensuring appropriate disclosure is made on a real-time basis.

Tax strategy governance

Simplyhealth Group's tax strategy is owned by the Chief Financial Officer and approved by the Board. The Chief Financial Officer is also the Group's Senior Accounting Officer ('SAO') and our tax strategy is delivered by the tax team to ensure Group-wide compliance and an appropriate control framework that enables the Chief Financial Officer to submit an unqualified SAO certificate to HMRC.

Use of financial instruments

The financial risks management objectives and policies are included in note 4 of the financial statements. The derivatives are allowed for the purpose of risk mitigation or seeking active risks as part of efficient portfolio management.

Dividends

The Company does not have any shareholder and therefore no dividends are proposed.

Directors' indemnities

During the year and at the time the Directors' Report was approved, the Company's directors were the beneficiaries of qualifying indemnity provisions in respect of proceedings brought by third parties (subject to the conditions set out in section 234 of the Companies Act 2006) provided by Simplyhealth Group Limited.

Political contributions

During the year no donations were made by the Company for political purposes (2020 – £nil)

Branches outside the UK

The Simplyhealth Group has no branches registered outside of the United Kingdom.

Disclosure of information to the auditor

Each of the persons who are directors of the Company at the date when this report was approved confirms that:

- So far as each director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- Each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditor

The auditor, Deloitte LLP has indicated its willingness to be continue in office and a resolution that it be reappointed will be proposed at the Annual General Meeting.

By order of the Board

Hambleden House
Waterloo Court
Andover
Hampshire
SP10 1LQ



Sneh Khemka
Chief Executive Officer

31 March 2022

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Simplyhealth Group and of the profit or loss of the Company and Simplyhealth Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Simplyhealth Group's transactions, and that disclose with reasonable accuracy at any time the financial position of the Company and Simplyhealth Group, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Simplyhealth Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Financial statements

INDEPENDENT AUDITOR'S REPORT

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Simplyhealth Group Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but 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 economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, risk and compliance about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included regulatory solvency requirements and the regulations of the Prudential Regulation Authority and the Financial Conduct Authority.

We discussed among the audit engagement team including relevant internal specialists such as tax, actuarial, IT, valuation and financial instruments specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- Selection and application of actuarial methodologies and models used in estimating the gross outstanding claims provision, as disclosed in note 23:
 - » We have gained an understanding of relevant controls in the process of estimating the gross outstanding claims provision.
 - » Together with our actuarial specialists, we have performed the following procedures:
 - Assessed and challenged management's selection of actuarial methodologies and benchmarked to market practice, where appropriate.
 - Assessed the implementation of the chosen methodologies through inspection of management's actuarial models.
 - Calculated an independent projection of the gross outstanding claims reserve to challenge that the model is functioning as intended and accurately implementing management's selected methodologies and to determine a reasonable range of estimates against which management's estimate can be benchmarked. We assessed the reasonableness of any differences noted in the comparison of our internal estimates with that of management.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority and the Financial Conduct Authority.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Andrew Holland, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, UK

31 March 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

TECHNICAL ACCOUNT

	Note	2021	2020		Total £m
		Continuing Operations £m	Continuing Operations £m	Discontinued Operations £m	
General business					
Earned premiums					
Gross premiums written		198.6	207.1	-	207.1
Change in the gross provision for unearned premiums	23	(0.4)	3.8	-	3.8
Total technical income		198.2	210.9	-	210.9
Claims incurred net of reinsurance					
Claims paid					
Gross claims paid		(144.0)	(113.0)	-	(113.0)
Change in the provision for outstanding claims					
Gross	23	1.4	(2.9)	-	(2.9)
Total claims incurred		(142.6)	(115.9)	-	(115.9)
Net operating expenses and other charges	5	(61.7)	(53.1)	-	(53.1)
Total technical charge		(204.3)	(169.0)	-	(169.0)
Balance on the general business technical account		(6.1)	41.9	-	41.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

NON-TECHNICAL ACCOUNT

	Note	2021	2020		Total £m
		Continuing Operations £m	Continuing Operations £m	Discontinued Operations £m	
Balance on the general technical account		(6.1)	41.9	-	41.9
Investment returns					
Income from investments	7	2.1	3.0	-	3.0
Gains/(losses) on realisation of investments		0.2	(1.2)	-	(1.2)
Unrealised gains/(losses) on investments		(1.3)	2.9	-	2.9
Other investment charges and expenses		(0.6)	(0.5)	-	(0.5)
Other income and charges					
Other income		24.1	23.9	4.6	28.5
Other charges	5	(24.8)	(28.1)	(4.7)	(32.8)
Share of profit/(loss) in joint ventures	15	0.2	(1.4)	-	(1.4)
Impairment of investments		4.1	(4.3)	-	(4.3)
Impairment of goodwill		-	(1.0)	-	(1.0)
Profit on disposal of operations	13	0.3	-	2.7	2.7
Reversal of impairment of land and buildings	11	-	0.1	-	0.1
Revaluation loss on buildings		-	(0.2)	-	(0.2)
Donations		(0.9)	(1.0)	-	(1.0)
Amortisation of goodwill and other intangibles	9,10	(12.0)	(13.1)	-	(13.1)
Profit/(loss) on ordinary activities before tax		(14.7)	21.1	2.6	23.7
Tax on profit/(loss) on ordinary activities	8	1.8	(8.1)	(0.1)	(8.2)
Total comprehensive profit/(loss) for the financial year		(12.9)	13.0	2.5	15.5

The Group has no recognised items of other comprehensive income other than those included above.

The notes on pages 60 to 90 form an integral part of these financial statements.

The Company has taken advantage of Section 408 of the Companies Act 2006 and consequently a statement of comprehensive income for the parent company alone is not presented. The loss on ordinary activities after taxation for the financial year dealt within the accounts of the parent company is £1.5m (2020 – loss of £13.1m).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 £m	2020 £m
ASSETS			
Intangible assets			
Goodwill	9	–	11.5
Other intangible assets	10	2.4	1.3
Investments			
Land and buildings	11	6.2	6.2
Other financial investments	14	217.9	200.6
Derivative assets	14	0.4	1.2
Investment in joint ventures	15	1.8	4.3
Debtors			
Debtors arising out of direct insurance operations		89.2	89.1
Other debtors	17	9.9	3.9
Deferred taxation	19	2.0	2.0
Other assets			
Tangible assets	18	3.2	4.0
Cash and cash equivalents	16	35.2	48.4
Prepayments and accrued income			
Accrued interest		0.3	0.8
Deferred acquisition costs	20	1.1	0.9
Other prepayments and accrued income		3.0	2.3
Total assets		372.6	376.5
EQUITY AND LIABILITIES			
Equity			
Profit and loss account	21	237.8	250.7
Revaluation reserve		0.6	0.6
Liabilities			
Technical provisions			
Provision for unearned premiums	23	78.1	77.7
Provision for claims outstanding	23	17.7	19.1
Creditors			
Derivative liabilities	14	0.8	0.9
Other creditors	22	24.0	14.0
Accruals and deferred income		13.6	13.5
Total equity and liabilities		372.6	376.5

The notes on pages 60 to 90 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 31 March 2022.

Signed on behalf of the Board of Directors



Sneh Khemka
Chief Executive

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 £m	2020 £m
ASSETS			
Fixed assets			
Investments in group undertakings	12	123.7	124.3
Debtors			
Amounts due from group undertakings	17	7.0	–
Other assets			
Cash and cash equivalents	16	7.4	15.4
Total assets		138.1	139.7
EQUITY AND LIABILITIES			
Equity			
Profit and loss account at start of the year		128.3	141.4
Total comprehensive loss for the year		(1.6)	(13.1)
Profit and loss account	21	126.7	128.3
Liabilities			
Creditors: Amounts falling due within one year			
Amounts due to group undertakings	22	11.4	11.4
Total equity and liabilities		138.1	139.7

The notes on pages 60 to 90 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 31 March 2022.

Signed on behalf of the Board of Directors



Sneh Khemka
Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2021

	Revaluation reserve £m	Profit and loss account £m	Total shareholder funds £m
Balance as at 01 January 2020	0.6	235.2	235.8
Comprehensive profit	–	15.5	15.5
Balance as at 31 December 2020	0.6	250.7	251.3
Comprehensive loss	–	(12.9)	(12.9)
Balance as at 31 December 2021	0.6	237.8	238.4

COMPANY STATEMENT OF CHANGES IN EQUITY

As at 31 December 2021

	Profit and loss account £m
Balance as at 01 January 2020	141.4
Comprehensive loss	(13.1)
Balance as at 31 December 2020	128.3
Comprehensive loss	(1.6)
Balance as at 31 December 2021	126.7

The notes on pages 60 to 90 form an integral part of these financial statements.

The balance on the profit and loss account for both the Company and the Group comprises total comprehensive income accumulated in prior years.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2021

	Note	2021 £m	2020 £m
Net cash flows from operating activities	24	1.7	28.2
Cash flows from investing activities			
Investment in joint ventures net of capital repayments		2.5	2.5
Purchase of tangible fixed assets		(0.6)	(1.5)
Purchase of intangible assets		(1.6)	-
Disposal of intangible assets		-	(0.6)
Goodwill on conversion of joint venture to a subsidiary		-	(1.0)
Purchase of debt securities and other fixed income securities		(300.9)	(128.5)
Purchase in shares in subsidiaries held for resale		(4.1)	-
Proceeds on disposal of debt and other fixed income securities		289.1	106.6
Settlement of derivative contracts		0.7	(0.3)
Expenses incurred on disposal of operations		-	(1.4)
Net cash flows from/(to) investing activities		(14.9)	(24.2)
Net increase/(decrease) in cash and cash equivalents		(13.2)	4.0
Cash and cash equivalents at beginning of year		48.4	44.4
Cash and cash equivalents at end of year		35.2	48.4
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		35.2	46.4
Cash equivalents		-	2.0
Cash and cash equivalents at end of year		35.2	48.4

The notes on pages 60 to 90 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

1. CORPORATE INFORMATION

The Company is limited by guarantee and is incorporated in the United Kingdom, registration number 05445654. The address of the registered office is detailed on page 1. The nature of the Group's operations and its principal activities are set out in the Strategic Report.

2. ACCOUNTING POLICIES

The principal accounting policies are summarised below.

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ('FRS 102') and FRS 103 "Insurance Contracts" ('FRS 103') and the Companies Act 2006.

The functional currency of the Group and the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Group operates. The consolidated financial statements are presented in pounds sterling.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a company cash flow statement and remuneration of key management personnel of the Company.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income, and expenses are eliminated on consolidation.

Going concern

The Directors have considered in detail the Group's forecast performance, in a number of scenarios, as well as its capital and liquidity resources, in each case. These forecasts have been stressed tested through our COVID-19 scenario modelling, evaluating the impact on our financial performance and solvency of shorter- and long-term lockdowns in a number of economic best and worst case scenarios, over a number of years. The Group remains able to trade as a going concern through the strength of its capital base and liquidity even when faced with severe, yet plausible scenarios/events, including those scenarios relating to COVID-19.

We continue to be highly effective in our operations which are now all delivered remotely through employee homes and as a result we have supported our customers when they have needed us and maintained a mutually valued relationship. Our operational stress testing has included both internal assessments of risk through our ORSA process and the external regulatory capital requirements contained within Solvency II, under both of these tests, and respective scenarios the business is able to continue to support our customers and trade as a going concern.

Through maintaining a strong capital position and through our operational resilience, we have not seen a change in our customer lapses above normal levels. We have launched a new digital product at the lowest price point of all our products to help alleviate any financial challenges, whilst still making access to healthcare possible to new customers and we have given financial support to existing customers and healthcare practitioners in a number of ways. We are being responsive and supportive, and we are confident that the majority of our customers will stick with us through this challenging time and beyond into a recession, just as we experienced in 2008-2009.

During the year the Group undertook a review of its Investment Strategy, reflecting the fact that macroeconomic conditions were leading to below inflation returns. As a result in December 2021 the Group transferred £100m of funds held within the existing portfolio managed under a segregated mandate, into a more diversified income fund that is managed as a unit trust for multiple investors. Even in stressed scenarios, we are able to liquidate our investments at short notice. Our portfolio value at the end of 2021 was £218.3m, geopolitical concerns and increased inflationary risks have reduced the value of fixed income portfolios and the value of our portfolio as at 2 March 2022 was £210.2m.

2. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

Our Solvency ratio at the end of 2021 was 338.5%. In all our scenarios tests we remain solvent with significant headroom above our SCR and on that basis the directors have confidence that the majority of our scenarios indicate that Simplyhealth will remain solvent in the event of severe, yet plausible events. Our 'severe business downside' scenario, intended to stress our position significantly beyond that of the already severe 'business downside' scenario, was the only scenario identified with the potential to result in a breach of our solvency ratio. A number of management actions are available in the highly unlikely event that this scenario were to occur to return our solvency ratio to within our risk appetite, ensuring sufficient headroom above our SCR. On that basis the directors have confidence that the Group has sufficient capital and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. Accordingly, the directors have adopted the going concern basis in preparing these financial statements.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised, and amortised through the statement of comprehensive income on a straight-line basis over its expected useful economic life, which the directors consider to be 10 years on current acquisitions. The gain or loss on subsequent disposal of a subsidiary will take account of any attributable, unamortised goodwill, which is derecognised on the disposal of the associated business.

The carrying value of goodwill is assessed at each annual reporting date for any impairment.

Other intangible assets

Brands, customer relationships and licences

Intangible assets are recognised on acquisition of subsidiary undertakings and businesses where the directors believe that it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost or value of the asset can be measured reliably.

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged so as to allocate the cost of intangibles through the statement of comprehensive income on a straight-line basis over their expected useful economic life, which the directors consider to be 10 years for intangible assets arising in respect of capitation plans and insurance products.

The carrying values of brands, customer relationships and licences are assessed at each annual reporting date for any impairment. Post the triennial review of section 19 of FRS 102 in 2019 intangible assets arising on business combinations are recognised only when they arise from legal/contractual rights and are also separable from the business.

Research

Research expenditure is written off as incurred.

Computer software and development costs

Purchased computer software is carried at historical cost less accumulated amortisation and amortised over a useful life of between two and four years, on a straight-line basis. Provision is made for any impairment.

The Directors review internal development expenditure annually. If the Directors are satisfied as to the technical, commercial, and financial viability of individual projects internally developed computer software is capitalised as development expenditure. Development expenditure is not capitalised until it is implemented in the live environment at which point it is reclassified as computer software and amortised over a period of seven years.

Development expenditure that does not meet the criteria is expensed as incurred. Development costs previously expensed are not recognised as an asset in a subsequent period.

In cases of staged live implementations, costs relating to the expected benefits of the relevant modules are reclassified from development expenditure to software and amortised over a period of seven years. The carrying value of the asset and its expected future cash flows are assessed annually for impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	– 50 years
Motor vehicles	– 4 years
Computer hardware	– 2 to 4 years
Fixtures, fittings and office equipment	– 4 to 10 years

Assets in the course of construction are not depreciated and are reviewed annually for indicators of impairment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

2. ACCOUNTING POLICIES (CONTINUED)

Revaluation of properties

Individual freehold properties are revalued to fair value every year using professional external valuers.

Where the fair value of an individual property exceeds historical cost, the surplus is credited to a revaluation reserve and recognised as other comprehensive income. If a deficit is identified which exceeds a previously recognised surplus relating to the same property, this deficit is charged to the statement of comprehensive income within the non-technical account. A reversal of such a deficit is credited to the statement of comprehensive income within the non-technical account.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities, including debtors and creditors receivable or payable within one year with no stated interest rate, are initially measured at transaction price (including transaction costs), except for those financial assets classified as 'at fair value through profit or loss', which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction.

Derivative financial instruments are measured at fair value through profit or loss.

Debt instruments that are classified as payable or receivable within one year on initial recognition are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Debt instruments due in more than one year, other than those designated at fair value through profit or loss as part of the Group's trading portfolio, are subsequently measured at amortised cost using the effective interest method.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled, or expires.

(ii) Investments

Investments in non-convertible preference shares and non-puttable ordinary or preference shares (where shares are publicly traded or where their fair value is reliably measurable) are measured at fair value through profit or loss.

Investments in debt securities and collective investment schemes held by the Group as part of the trading portfolio have been designated by the Group as fair value through profit or loss. This group of instruments is managed and its performance evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's key management personnel.

Where fair value cannot be measured reliably, investments are measured at cost less impairment.

Investments in subsidiaries are measured at cost less impairment.

(iii) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using an appropriate valuation technique such as a discounted cashflow or industry specific EBITDA multiple.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is an unconditional and a legally enforceable right to offset the recognised amounts in all circumstances (including the default by, or insolvency or bankruptcy of, the Group or counterparties), and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Realisation of a financial asset and settlement of a financial liability are treated as simultaneous only when the settlements are executed at the same time, or within a single settlement process or cycle, resulting in no or insignificant credit and liquidity risk.

2. ACCOUNTING POLICIES (CONTINUED)

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the statement of comprehensive income as described below.

Non-financial assets

If there is an indication of possible impairment, the recoverable amount of the asset is estimated and compared with its carrying amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

At each subsequent reporting date a new assessment of impairment is carried out and if the circumstances that previously caused the impairment no longer exist or there is clear evidence of an increase in the selling price because of changed economic circumstances the previous impairment is reversed.

Financial assets

For financial assets carried at amortised cost, the recoverable amount is determined as the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the recoverable amount is the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents consist of cash balances, deposits, and other financial instruments with maturity less than 90 days. This includes funds held on behalf of third parties that are not available for use by the Group or Company. The offsetting liability is included in 'Other creditors' in note 22.

Contingent assets

Contingent assets are not recognised, in the financial statements. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Third party funds

Third party funds comprise cash held on behalf of customers to administer claims under service contracts and are maintained in separate bank accounts. Following generally accepted industry practice, these amounts are disclosed separately within cash, with a corresponding creditor disclosed. The inclusion of these funds on the statement of financial position therefore has no impact on the net assets of the Company or Group.

Foreign currencies

Monetary assets and liabilities held in foreign currencies at the statement of financial position date are expressed in sterling at rates ruling on that date. Income and expenditure denominated in foreign currencies are translated at rates ruling at the date on which the transaction occurs. All resulting exchange gains and losses are included within the non-technical account in the statement of comprehensive income.

Premiums

The Group accounts for its insurance business on a monthly or annual basis depending on the period of cover provided by the contract. Claims are only payable where customers continue to pay premiums. Premiums written relate to business inception in the year, together with any differences between booked premiums for prior years and those previously accrued, and are recognised as written on a receivable basis with an adjustment for any unearned element. Gross premiums are stated net of any Insurance Premium Tax as applicable.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

2. ACCOUNTING POLICIES (CONTINUED)

Unearned premiums

Earned premiums represent gross premiums written after adjusting for changes in unearned premiums. The unearned premium provision represents the proportion of premiums written in the financial year that relate to periods of risk in future accounting years. It is calculated separately for each insurance contract and on a pro rata basis. The change in this provision is taken to profit or loss in order that revenue is recognised over the period of risk.

Investment income

Investment income includes dividends, interest, gains and losses on the realisation of investments and unrealised gains and losses. Income from fixed interest securities together with interest, rents and associated expenses are accounted for in the year in which they accrue. Dividends are included in the statement of comprehensive income when the securities are listed as ex-dividend. Realised gains and losses on investments are calculated as the difference between the net sale proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation of investments at the statement of financial position date and their original cost or, if they have been previously valued, the valuation at the previous statement of financial position date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

Other income

Other income is recognised on an accruals basis, net of any value added taxation.

Unexpired risk provision

An unexpired risk provision is made where necessary to cover any amount by which future claims and related acquisition costs on business in force at the statement of financial position date are expected to exceed the provision for unearned premiums at that same date. The amount provided is determined after considering the individual pattern and profile of specific homogeneous risk groups. Any provision for unexpired risks is included within the 'Technical provisions' in the statement of financial position.

The Group assesses at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in profit or loss.

Pension costs and other employee benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Differences between amounts due in the year and amounts actually paid are shown as either accruals or prepayments in the statement of financial position.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

Claims

Claims are recognised on the occurrence of the loss event which is the date the individual incurs the treatment.

Claims incurred comprises claims reported and settled during the year or awaiting settlement at the year-end, an estimate for claims incurred but not yet paid and an allowance to cover expenses in connection with the settlement of the claims incurred. The provision for outstanding claims at the year-end is based on claims experience and current expectations. Any over- or under-provision is adjusted as part of claims incurred in the following year.

Claims incurred and the provision for outstanding claims include direct, and an allocation of indirect, expenses connected with the settlement of claims. The allocation of indirect expenses is performed in a manner that fairly reflects the running of the business.

Claims also include other direct costs related to the provision of insured benefits. It includes but is not limited to, the provision of an Employee Assistance Program (EAP), a General Practitioner (GP) service and the provision of various health checks.

The provision for outstanding claims represents an estimate of the ultimate cost of settling all claims (including direct and indirect claims settlement costs) which have occurred up to the statement of financial position date. This includes a provision for claims incurred but not yet paid, the value of which is based on a best estimate plus a provision for adverse development within a range of possible outcomes. These figures are based on the overall claims risk profile as measured by the cost, frequency, deviation from historic trends and sensitivity of claims to market factors and include a fixed level of prudence based on the Group's risk appetite. The basis and calculation of both the estimates and the provision for adverse development are reviewed annually against claims experience.

2. ACCOUNTING POLICIES (CONTINUED)

Acquisition costs relating to insurance contracts

All costs of acquiring new business together with the associated initial processing costs, and an allocation of indirect costs, are accounted for as acquisition costs in the statement of comprehensive income in the year in which they were incurred. Similarly, the costs of monitoring existing business and the general running of the Group are treated as administrative expenses. The commission paid in respect of insurance contracts incurred during a financial year is deferred to the extent that it relates to unearned premiums at the statement of financial position date and is amortised over the period in which the related revenues are earned.

Taxation

The Group is liable to taxation on its profit or loss on ordinary activities. Current tax is provided for at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at that date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) or liability that is recognised in a business combination is different from the value at which it is recognised, a deferred tax asset or liability is recognised for the additional tax that will arise in respect of that difference. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date that are expected to apply to the reversal of the timing difference.

Deferred tax assets and liabilities are offset only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets and liabilities are not discounted.

Investment in joint ventures

Entities in which the Group holds an interest and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures.

The Group's share of the results of joint ventures and associates is included in the Group statement of comprehensive income using the equity method of accounting. Investments in joint ventures are carried in the Group statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value.

Subsidiaries held exclusively for resale

Joint ventures that have become subsidiaries during the year, that have not been previously consolidated, are held for resale if the disposal is reasonably expected to take place within one year of acquisition. The subsidiaries continue to be equity accounted until the date of disposal.

Leases

Payments in respect of operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the accounting policies

No critical judgements, apart from those involving estimations (which are presented separately below), have been made by the directors in the process of applying the Group's accounting policies.

Key accounting estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Claims incurred arising from insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is a critical accounting estimate. Management estimates use historical analysis and an extrapolation of current trends to inform claims provisioning, this is then subject to formal management review. A 5.7% deviation in the final outturn would lead to a shortfall in reserves of £1.0m.

There is uncertainty as to the loss ratio the Group will experience as claims are settled. Key assumptions are based upon anticipated loss ratios, which are based upon historical experience, and updated for expectations of future changes in claims inflation and incidence rates.

There are a number of uncertainties that determine how much the Group will ultimately pay with respect to such contracts. This includes whether a claim event has occurred or not, how much it will ultimately settle for and changes in the business portfolio which affect factors such as the number of claims and their typical settlement costs.

The insurance liabilities recorded on the statement of financial position include a provision for adverse development in addition to the best estimates for future claims. The margin over and above the best estimate is a fixed amount, based upon technical provisions net of reinsurance, and is subject to annual review. Further discussion, including analysis of the sensitivity of profit or loss to changes in the claims loss ratio, is presented in note 23.

The claims best estimates attempt to reflect the impact of COVID-19 and its inherent uncertainties, including such items as claims inflation and volumes.

Fair value of financial instruments

On 31 December the Group held loan notes in an unlisted entity that can be converted into equity. The entity's cash flows and profitability have become more certain and provides a reliable new estimate of fair value. The fair value has been calculated by taking the mid-point of the entity's normalised EBITDA and a high and low industry earnings multiplier. The valuation of £9.0m represents a share price of 57p per share and an increase in fair value of £7.5m.

Goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which they have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Further disclosures and a reconciliation of the movement in carrying value of goodwill and other intangible assets between the current and previous statement of financial position are included within notes 9 and 10.

4. FINANCIAL RISK AND CAPITAL MANAGEMENT

The Group is exposed to financial risk through its financial assets and insurance liabilities. The most important components of financial risk are credit risk, liquidity risk, interest rate risk, currency risk and equity price risk.

There have been no significant changes from the prior period in the nature of the financial risks to which the Group is exposed. The Group's objectives and policies for managing these risks and the methods used to measure risk exposure are consistent with those adopted during the prior period.

The Group uses derivatives for the purpose of efficient portfolio management and to reduce risk in aspects of the Group's investment activities. The Group uses forward foreign exchange contracts and fixed interest futures for these purposes.

The Group monitors its exposure to risks through regular reviews of its portfolio of assets and liabilities and their underlying characteristics. The Directors have chosen not to apply hedge accounting to the Group's derivatives.

The Group has designated debt instruments, derivative assets and liabilities, cash equivalents and equity shares in its investment portfolio as fair value through profit and loss. All other financial assets and liabilities are held at amortised cost.

a) Categories of financial assets and liabilities

	Held at fair value £m	Held at amortised cost £m	Total £m
As at 31 December 2021			
Cash at bank and in hand	-	35.2	35.2
Other financial investments	213.8	4.1	217.9
Derivative assets	0.4	-	0.4
Other financial assets	-	97.7	97.7
Other financial liabilities	(0.8)	(50.4)	(51.2)
Total	213.4	86.6	300.0
	Held at fair value £m	Held at amortised cost £m	Total £m
As at 31 December 2020			
Cash at bank and in hand	-	46.4	46.4
Cash equivalents	2.0	-	2.0
Other financial investments	200.6	-	200.6
Derivative assets	1.2	-	1.2
Other financial assets	-	93.7	93.7
Other financial liabilities	-	(40.6)	(40.6)
Total	203.8	99.5	303.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

4. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

b) Measurement of fair value

The Amendment to FRS 102 in respect of Fair Value Hierarchy Disclosures sets out the measurement bases that can be used to value financial assets and liabilities held at fair value. The different methods of valuation are categorised into a hierarchy as follows:

Level 1: assets and liabilities for which fair values have been measured using the unadjusted quoted price in an active market for identical assets or liabilities that the Group can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The following table analyses the Group's financial assets and liabilities that are held at fair value according to the above hierarchy:

As at 31 December 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities	–	103.2	–	103.2
Unit trusts	–	100.1	–	100.1
Unlisted investments	–	–	10.5	10.5
Financial assets held at fair value	–	203.3	10.5	213.8
Derivative assets	–	0.4	–	0.4

As at 31 December 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities	–	197.0	–	197.0
Unlisted investments	–	–	3.6	3.6
Cash equivalents	–	2.0	–	2.0
Financial assets held at fair value	–	199.0	3.6	202.6
Derivative assets	–	1.2	–	1.2

The valuation of the debt security included in Level 3 is based on a discounted cash flow model with inputs that are derived from the yield and duration of the bond rather than observable market data, together with £10.5m unlisted investments held at historical cost.

c) Credit risk

The Group has exposure to credit risk, which is the risk that counterparties will cause a financial loss to the Group by failing to discharge an obligation, from the following areas:

- cash deposits held with banks;
- counterparty defaults on debt securities;
- amounts due from insurance premium debtors; and
- amounts due from other group undertakings and guarantees offered to other group entities.

The carrying value of its financial assets best represents the Group's maximum exposure to credit risk. The Group's risk policies limit the maximum exposure to credit risk outside of UK Government and with any single counterparty to £45m.

4. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

c) Credit risk (continued)

Debtors arising out of direct insurance operations

Debtors arising out of direct insurance operations comprise premiums due from policyholders and they comprise the Group's most significant exposure to credit risk. An allowance for doubtful debts is maintained and regularly monitored as part of the Group's internal financial reporting process. The maturity of premium debtors, net of allowances for doubtful debts, is as follows:

Days past due	Premium debtors not yet due £m	0-30 days overdue £m	30-60 days overdue £m	60-90 days overdue £m	Over 90 days overdue £m	Total £m
Amount outstanding						
As at 31 December 2021	85.3	3.2	0.6	0.1	-	89.2
As at 31 December 2020	86.5	1.6	0.7	0.3	-	89.1

Premium debtors are stated net of a provision for doubtful debts of £0.5m (2020 – £0.7m).

At 31 December 2021, there are impaired amounts due from insurance policyholders of £0.5m (2020 – £0.7m). Where contractual payments are in arrears for more than three months, the relevant assets are classified as past due and impaired.

Financial investments

The credit risk exposure from financial investments and cash deposits is managed by monitoring credit ratings assigned to counterparties by international credit rating agencies.

The Group manages its direct investment holdings by placing the following limits on the credit ratings of its investment counterparties with the appointed investment managers through the Investment Management Agreement:

- Maximum limit of BBB-rated securities 30%
- Maximum limit of A-rated securities 65%
- Securities below the limit of BBB are not rated
- The balance of the portfolio is represented by cash held by our investment custodians
- No investment is allowed in unrated bonds
- If a bond is downgraded to below investment grade, it would normally be sold within six months.

The limits set out in the Investment Management Agreement were adhered to throughout the period.

Derivative financial instruments

The Investment Manager has a credit risk policy that governs the assessment of credit risk and the process for selection of derivative counterparties. The Company maintains strict control on open derivative positions by amount and term. The use of International Swaps and Derivatives Association Master Agreements allows for close-out netting to reduce pre-settlement credit risk and provide a right of set-off upon the event of default. Additionally, where material, collateral may be received or pledged to reduce the level of credit risk in derivative contracts.

Other financial assets

The carrying amount of policyholder debtors and other financial assets represents the Group's maximum exposure to credit risk. The amounts presented in the statement of financial position are net of allowances for doubtful receivables.

Cash balances are regularly reviewed to identify the quality of the counterparty banks and to monitor and limit concentrations of risk. The Group has no material concentration of credit risk in respect of amounts due from insurance intermediaries and policyholders due to the well diversified spread of such debtors. The debt investments portfolio consists of a range of fixed interest instruments including government securities and corporate bonds, preference shares and other interest-bearing securities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

4. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

c) Credit risk (continued)

Financial assets bearing credit risk

The financial assets bearing credit risk are summarised below, together with an analysis by credit rating. The maximum exposure that the Company has to credit risk at the balance sheet date is the carrying value of the assets shown below.

	2021 £m	2020 £m
Category of assets		
Debt securities	103.2	197.0
Unit trusts	100.1	–
Unlisted investments	14.6	3.6
Cash equivalents	–	2.0
Derivative financial instruments	0.4	1.2
Debtors arising out of direct insurance operations	89.2	89.1
Other debtors	8.2	3.9
Cash at bank	35.2	46.4
Accrued interest	0.3	0.8
Total	351.2	344.0

	2021 £m	2020 £m
Analysis by credit rating		
AAA	38.3	60.4
AA	31.5	74.6
A	149.9	41.6
BBB	18.9	70.7
BB	0.2	–
Below BBB or not rated	112.4	96.7
Total	351.2	344.0

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations associated with financial liabilities or insurance contract liabilities when they fall due. The Group is exposed to daily calls on its available cash resources from claims arising from insurance contracts and to settle its financial liabilities. The Group has robust processes in place to manage liquidity risk and has available cash balances and other readily marketable assets in case of exceptional need. The Group's risk policies are designed to manage the risks associated with asset and liability matching.

Throughout the COVID-19 pandemic Simplyhealth has maintained a large amount of liquidity through its operational cash balances. At 31 December 2021, the Group held cash and cash equivalent balances totalling £35.2 (2020 – £48.4m) to meet both current and potential liquidity requirements under stressed conditions. In addition to these balances the investment funds contained within the portfolio managed by Schroders Investment management and through the Pimco Diversified Income Fund could be liquidated into cash within a one-month period.

4. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

The following table shows the maturity profile of the Group's insurance contract liabilities at the undiscounted amounts of their contracted future cash flows:

	2021 £m	2020 £m
Provision for unearned premiums		
Within one year	78.1	77.7
Provision for outstanding claims		
Within one year	16.0	17.3
Between one and five years	1.4	1.5
After more than five years	0.3	0.3
Total	17.7	19.1

All of the Group's other financial liabilities total £37.6m (2020 – £27.5m) and are payable within one year.

Information about the expected timing of the net cash outflows resulting from recognised insurance liabilities is given in note 23.

e) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group has potential material exposure to four types of market risk: interest rate risk, equity price risk, currency risk and credit risk.

The exposure to interest rate risk arises primarily from valuation movements on financial investments that are measured at fair value and have fixed interest rates. The investment strategy is set by the Board and management follows this strategy in making investment decisions. The investment portfolio is reviewed by the Risk and Capital Committee to ensure that investments are maintained in line with the investment strategy.

The Risk and Capital Committee oversees the management of all investments, including cash balances, of the Group. The Committee meets quarterly to discuss and provide challenge to the decisions of management and of the investment manager appointed by the Board. External advisors are consulted to provide both investment and actuarial advice to support the Committee in setting the investment policy and strategy and to supplement the internal resource in challenging the investment manager's advice.

The Group's exposure to currency risk arises from the investment portfolio, with some purchased investments denominated in currencies other than sterling. This risk is managed through the use of foreign exchange forward contracts and diversification of currency exposures.

The Group's exposure to credit risk arises from potential changes in the risk profile of investment counterparties leading to increased risk of defaults. The management of this risk is further explained in note 4 (c).

The Group's only exposure to market risk is through its financial investment portfolio. The value of financial investments and cash equivalents at 31 December 2021 is £218.3m (2020 – £201.8m). The stress tests applied are weighted to reflect the value of the portfolio that is exposed to each variable.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

4. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

e) Market risk (continued)

The sensitivity of reserves to movements in market risk variables, each considered in isolation, is shown in the following table:

Variable	Change in variable	Potential increase/ (decrease) in profit after tax and equity	
		2021	2020
Interest rate risk	–50 basis points	3.4	1.5
	+200 basis points	(12.0)	(4.9)
Equity price risk	+10% global equity market	2.3	0.1
	–10% global equity market	(2.3)	(0.1)
Currency risk	+15% spot rate against USD and EUR	(0.4)	0.5
	–15% spot rate against USD and EUR	0.8	(0.2)
Credit risk	–50 basis points	6.7	(0.5)
	+50 basis points	(6.6)	0.5

The analysis of market risk sensitivity has been derived by the Group's independent external investment manager, using standard valuation techniques that are the same as those applied in the previous year. It has been assumed that:

- the value of fixed income investments will vary inversely with changes in interest rates;
- equity prices will move by the same percentage across all territories;
- currency gains and losses will arise from a change in the value of sterling against all other currencies moving in parallel; and
- credit spreads will move by the same percentage across all instruments and counterparties.

The change in profit is stated after tax at the standard rate applicable to the Group.

During the year the Group undertook a review of its Investment Strategy, reflecting the fact that macroeconomic conditions were leading to below inflation returns. As a result in December 2021 the Group transferred £100m of funds held within the existing portfolio managed under a segregated mandate, into a more diversified income fund that is managed as a unit trust for multiple investors. The portfolio value as at 2 March 2022 was £210.2m.

We additionally consider ESG and climate change as part of our decision-making process working with our investment managers to ensure that our investment philosophy is aligned to this purpose.

f) Capital risk management – unaudited

Capital Management Policy

The Capital Management Policy seeks to optimise the balance between risk and return while maintaining economic and regulatory capital within the Group's risk appetite. This policy guides the definition, measurement, reporting and projection of capital, assessing the current and potential sources and uses of capital, addressing:

- The assessment of the optimal overall capital balance required to support appropriate financial strength and flexibility, with reference to the Group's risk appetite, regulatory requirements and the reasonable expectations of stakeholders including customers and suppliers.
- The allocation of capital within the organisation to ensure that legal entities, and the Group, hold adequate capital for the effective operation of their businesses.
- The rationing of capital to investment opportunities with the aim of delivering on Simplyhealth's long-term goals, growing the capital base and diversifying the risk profile of the Group's invested capital.

4. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

f) Capital risk management – unaudited (continued)

Capital Management Principles

The Capital Management Policy exists to provide guidance and governance over the holding and investment of the Group's overall capital.

The Group is required to maintain a solvency capital position in accordance with the Solvency II rules.

Capital headroom is represented by the capital surplus above our regulatory capital requirements, and adjusted for the Group's risk appetite. The risk appetite has been agreed with the Board of Directors and includes a capital buffer in excess of the higher of the Solvency Capital Requirement and the ORSA estimate of capital requirement as set out in the table below.

Capital above this buffer comprises resources which may be allocated to continued investment in the development of the Group's operations, subject to its risk appetite and targeted rates of return on capital. The Group sets a target rate of return for investment proposals to qualify for funding.

The Group's capital position is monitored on a regular basis as part of the standard performance reporting and review process and it has complied with the capital adequacy requirements of the Solvency II rules throughout the year.

Capital Management

The Group operates a single fund in respect of its general insurance business. The table below shows the capital available on a regulatory basis available to meet the regulatory Solvency II capital requirements for its general insurance business, which continues to represent a strong position:

	2021 £m	2020 £m
Available capital resources		
UK GAAP net assets	238.4	251.3
Adjustments onto regulatory basis:		
Goodwill	-	(11.5)
Intangible assets	(2.4)	(1.3)
Deferred acquisition costs	(1.1)	(0.9)
Investment in joint ventures	(1.4)	(3.7)
Unlisted investments	(2.1)	(1.2)
Other debtors	(0.8)	-
Other liabilities	0.1	-
Adjust technical provisions to Solvency II basis	8.8	15.6
Deferred tax valuation adjustments	(1.3)	(2.8)
Solvency II eligible own funds	238.2	245.5
Solvency II Capital Requirement ('SCR')	70.4	48.3
Capital Surplus	167.8	197.2
Solvency 'Buffer' at 40% of SCR	(28.1)	(19.3)
Available Capital ('Headroom')	139.7	177.9
Solvency II Capital Multiple	338.5%	508.0%

The Group has used the Standard Formula as defined by Solvency II regulations to determine the SCR without undertaking-specific parameters or simplifications.

Governance arrangements

The Chief Financial Officer owns the Capital Management Policy on behalf of the Board of Directors. The Board owns and agrees the definition of the Group's risk appetite. Governance over the implementation and operation of capital management is provided by the Risk and Capital Committee, a sub-committee of the Board.

Revision of key elements of the Capital Management Policy, such as an alteration of the Group's approach to meeting regulatory capital requirements or the composition of its own funds, is subject to approval within this governance structure.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

5. NET OPERATING EXPENSES AND OTHER CHARGES

Particulars of business

The Group has a single operating segment with one line of business that operates solely within the United Kingdom. Therefore, no segmental analysis has been presented.

	2021	2020	
	Continuing Operations £m	Continuing Operations £m	Discontinued Operations £m
Technical Account – Net operating expenses			
Acquisition costs	23.8	24.9	–
Change in deferred acquisition costs	(0.2)	(0.1)	–
Administrative expenses	38.1	28.3	–
Net operating expenses and other charges	61.7	53.1	–

The commission for direct insurance business for 2021 is £3.4m (2020 – £2.8m).

The other charges include the operating expenses of the non-insurance businesses. The charge in the statement of comprehensive income includes the following:

	2021	2020	
	Continuing Operations £m	Continuing Operations £m	Discontinued Operations £m
Non-technical account – Other charges			
Administrative expenses	24.8	28.1	4.7

Amounts charged as administrative expenses in both the above tables include costs of £11.0m (2020 – £6.7m) relating to our Transformation Programme.

Profit/(Loss) on ordinary activities before tax is stated after charging/(crediting):

	Note	2021	2020	
		Continuing Operations £m	Continuing Operations £m	Discontinued Operations £m
Depreciation of buildings and tangible assets	11, 18	1.1	1.3	–
Revaluation (gain)/loss on buildings		(0.1)	0.2	–
Amortisation of intangible assets				
– Computer software	10	0.1	0.5	–
– Brands and other intangibles	10	0.4	0.1	–
Operating lease rentals				
– Motor vehicles		0.2	0.7	–
– Buildings		0.0	1.1	–
Amortisation of goodwill	9	11.5	12.5	–
Impairment of goodwill	9	–	1.0	–
Impairment of investments		–	4.3	–
Profit on disposal of operations	13	(0.3)	–	(2.7)

5. NET OPERATING EXPENSES AND OTHER CHARGES (CONTINUED)

Auditors' remuneration

	2021 £m	2020 £m
Auditors' remuneration		
Fees payable to the Company's auditor for:		
– the audit of the Company's financial statements	0.1	0.1
– audit-related assurance service fees	0.1	0.1
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	0.4	0.4
Additional costs relating to prior year audit	0.1	0.2
Total auditors' remuneration	0.7	0.8

The Group had audit-related assurance service fees payable of £55,000 (2020 – £52,000).

Fees for the audit of the Company's financial statements of £95,000 (2020 – £77,000) were borne by another Group company.

Additional costs relating to prior year was as a result of COVID-19 impact upon the business.

6. STAFF COSTS

	2021 £m	2020 £m
Staff costs include the following:		
Wages and salaries	38.3	35.0
Redundancy costs	1.4	1.0
Social security costs	4.2	3.8
Other pension costs	4.6	4.4
Total staff costs	48.5	44.2

	2021 No.	2020 No.
The average number of employees during the year was as follows:		
Operations	660	687
Finance and other administrative services	341	300
Total staff number	1,001	987

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

6. STAFF COSTS (CONTINUED)

Directors' Remuneration

Policy

The Company recognises the importance of the Board of Directors in setting the values and direction of the Company. In order to attract and retain directors with the required skills and experience, the Company must be competitive in the rewards offered to its directors while ensuring that their remuneration promotes the long-term success of the Company and Group. All rewards are set by the Remuneration Committee, comprised of non-executive directors of the Board, after comparison with market data received from external consultants.

Non-executive directors

The role of the non-executive directors is to provide challenge and advice, and to oversee the performance of the Company and Group. Simplyhealth therefore regards it as inappropriate that they should be financially incentivised on the Group's profitability or other financial performance measures. Each non-executive director is paid a fee, with further allowances paid to those who take on extra roles, such as chairing one of the Board sub-committees, or acting in the capacity of Senior Independent Director.

The non-executive directors are not employees of any company in the Simplyhealth Group and are appointed to three-year terms. It is normal company policy to rotate the non-executive directors in order that they retain their independence and objectivity.

Executive Directors

The role of the executive directors is to run the Company and Group on a day-to-day basis and Simplyhealth therefore regards it as essential that they are incentivised to meet its business goals. It is the Company's belief that each executive director must deliver and contribute to the overall success of the business and work effectively within the Executive Team, as they cannot deliver alone. Therefore, they are rewarded on both personal and collective performance. Executive director remuneration is made up of the following elements:

- Salary and benefits – which are contractual as an employee of the Company and Group and are set competitively against market norms. Salary will not be increased in line with market norms where individual performance and leadership behaviours are not at the level required for successful stewardship of the business.
- Annual bonus – the level of which is decided based on the achievement of the overall business objectives for the year and the individual performance and leadership behaviours of the Executive.
- Long Term Incentive Plan – The Group operated two LTIP schemes during the year. The 18-24 scheme is based on the achievement of business objectives over a seven-year period and was open to the Company's directors, the scheme was closed in January 2022. In addition, a new 2021-23 incentive plan was introduced to offer directors and key management staff an incentive to take decisions in the long-term interest of the business. The aim of the scheme is to promote a sustained improvement in the medium- to long-term performance of the business and to retain key talent.
- The executive directors are permanent employees and employment continues until terminated by either party under the terms of the contract of employment. The notice period of these contracts is either six or twelve months.

Pay and benefits in the year

The following amounts are paid or payable to the directors for their service during the year:

	2021	2020
	£m	£m
The directors' emoluments were as follows:		
Aggregate emoluments	1.6	1.5
Aggregate emoluments receivable under long-term incentive schemes	(0.1)	–
Compensation for loss of office (excluding shares)	0.1	0.8
Benefits	0.1	0.1
Total directors' emoluments	1.7	2.4

In respect of long-term incentive schemes, the negative amount in the table above represents the reversal of prior year accrued rights, as schemes have now closed.

6. STAFF COSTS (CONTINUED)

Pay and benefits in the year (continued)

No advances or credits granted to any director subsisted during the year. Also, no guarantees on behalf of any director subsisted during the year.

	2021 £m	2020 £m
The highest paid director's emoluments were as follows:		
Aggregate emoluments including receivable under long-term incentive schemes	0.7	0.6
Compensation for loss of office (excluding shares)	–	0.8
Benefits	–	0.1
Total highest paid director's emoluments	0.7	1.5

Key management includes the directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2021 £m	2020 £m
Key management compensation was as follows:		
Salaries and other short-term benefits	1.3	1.9
Aggregate emoluments receivable under long-term incentive schemes	0.1	–
Total key management compensation	1.4	1.9

Pension contributions

During the current and previous year no payments were made on behalf of the Directors in respect of pension contributions.

The Executive Directors are members of the Money Purchase Group Defined Contribution Pension Scheme. They have each opted to receive a cash payment in lieu of further pension contributions. These payments are included in the benefits figures above.

7. INCOME FROM INVESTMENTS

	2021 £m	2020 £m
Bank and other interest	2.1	3.0

All income from investments relates to continuing operations.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

8. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

The Group's tax (credit)/charge for the year is as follows:

	2021 £m	2020 £m
United Kingdom corporation tax at 19% (2020 – 19%)	-	7.8
Adjustment in respect of prior years	(1.8)	-
Total	(1.8)	7.8
Current year deferred taxation	0.5	0.7
Adjustment in respect of prior years	0.1	-
Effect of tax rate change on opening balance	(0.6)	(0.3)
Total deferred taxation	-	0.4
Tax charge/(credit) on loss on ordinary activities	(1.8)	8.2

The corporation tax charge for the year is higher than (2020 – higher) the standard rate of corporation tax in the UK at 19% (2020 – 19%) on the accounting loss as shown below:

	2021 £m	2020 £m
Loss on ordinary activities before taxation	(14.7)	23.7
Tax credit on loss at UK rate of 19% (2020 – 19%)	(2.8)	4.5
Fixed asset differences	0.1	0.1
Expenses not deductible for tax purposes	2.2	4.2
Income not taxable for tax purposes	(0.8)	(0.5)
Remeasurement of deferred tax for changes in tax rates	(0.5)	(0.3)
Deferred tax asset not recognised	-	0.2
Tax charge/(credit) on loss on ordinary activities	(1.8)	8.2

9. GOODWILL

	£m
Cost:	
At 1 January 2021	121.7
Disposals	(0.7)
At 31 December 2021	121.0
Accumulated amortisation and impairment:	
At 1 January 2021	110.2
Amortisation for year	11.5
Eliminated on disposals	(0.7)
At 31 December 2021	121.0
Net book value	
At 31 December 2021	-
At 31 December 2020	11.5

10. OTHER INTANGIBLE ASSETS

Group	Computer software £m	Brand and other intangibles £m	Total £m
Cost:			
At 1 January 2021	34.4	0.1	34.5
Additions	1.6	-	1.6
Disposals	(16.9)	-	(16.9)
At 31 December 2021	19.1	0.1	19.2
Accumulated amortisation and impairment:			
At 1 January 2021	33.1	0.1	33.2
Amortisation for the year	0.5	-	0.5
Elimination on disposal	(16.9)	-	(16.9)
At 31 December 2021	16.7	0.1	16.8
Net book value			
At 31 December 2021	2.4	-	2.4
At 31 December 2020	1.3	-	1.3

Research and Development costs of £7.3m (2020 – £2.0m) have been expensed during the year and are included in administration expenses in note 5.

11. LAND AND BUILDINGS

Group	Freehold land £m	Freehold buildings £m	Total £m
Valuation:			
At 1 January 2021	1.8	4.4	6.2
Revaluation gain/(loss)	-	-	-
At 31 December 2021	1.8	4.4	6.2
Accumulated depreciation:			
At 1 January 2021	-	-	-
Charge for the year	-	0.1	0.1
Increase in revaluation surplus	-	(0.1)	(0.1)
At 31 December 2021	-	-	-
Net book value			
At 31 December 2021	1.8	4.4	6.2
At 31 December 2020	1.8	4.4	6.2

The freehold and investment properties of the Group were professionally valued in accordance with the RICS Appraisal and Valuation Manual at 31 December 2021 by Colliers International UK plc, an independent external valuer.

The valuations have been arrived at by considering market evidence of similar office buildings after deducting normal purchasers' acquisition costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

11. LAND AND BUILDINGS (CONTINUED)

If freehold land and buildings had not been revalued, they would have been included in the financial statements at the following amounts:

	2021		2020	
	Freehold land £m	Freehold buildings £m	Freehold land £m	Freehold buildings £m
Cost	1.2	11.8	1.2	11.8
Accumulated depreciation	-	(5.7)	-	(5.4)
Historical cost value	1.2	6.1	1.2	6.4

The sale of Alan Child House for £2,600,000 has been agreed with a developer. The sale is subject to planning permission for a change of use which is expected to be granted in 2022. Contracts have been exchanged and a £100,000 non-refundable deposit was received in January 2022, with a resulting potential profit on sale of £580,000 less selling costs to be recognised in 2022.

12. FIXED ASSET INVESTMENTS

Company	Investment in undertakings £m	Other investments £m	Total £m
Cost:			
At 1 January 2021	151.3	0.6	151.9
Disposals	-	(0.6)	(0.6)
At 31 December 2021	151.3	-	151.3
Impairment:			
At 1 January 2021	27.6	-	27.6
At 31 December 2021	27.6	-	27.6
Net book value			
At 31 December 2021	123.7	-	123.7
At 31 December 2020	123.7	0.6	124.3

12. FIXED ASSET INVESTMENTS (CONTINUED)

The details of investments in the subsidiary undertakings held by the Company as at 31 December 2021 are as follows:

Name of company	Principal activity	Class and percentage of shares held
Simplyhealth Holdings Limited*	Non-trading	Ordinary shares 100%
Simplyhealth People Limited*	Provision of people and services for Group activities	Ordinary shares 100%
Simplyhealth Wellbeing Limited**	Non-trading	Ordinary shares 100%
Simplyhealth Nominees Limited*	Non-trading	Ordinary shares 100%
Denplan Limited*	Provision of dental scheme administration	Ordinary shares 100%
Simplyhealth Guidance Limited*	Non-trading	Ordinary shares 100%
Simplyhealth Access	Provision of insurance services	Ordinary shares 100%
Leeds Hospital Fund**	Non-trading	Ordinary shares 100%
Simplyhealth Limited**	Non-trading	Ordinary shares 100%
Simplyhealth Funding Services Limited	Arrangement of loans to dental practices	Ordinary shares 100%
Simplyhealth Business Services Limited**	Non-trading	Ordinary shares 100%
Simplyhealth Partnerships Limited	Provision of investment in joint ventures in dental practices	Ordinary shares 100%
Mapplewell Dental Centre LLP	Provision of dental treatment and services	100% ownership
Crescent Dental Care Limited	Provision of dental treatment and services	Ordinary shares 100%
Clover House Dental Practice Limited	Provision of dental treatment and services	Ordinary shares 100%

* Directly held by Simplyhealth Group Limited

** The following companies were dissolved on 4 January 2022

Leeds Hospital Fund
Simplyhealth Wellbeing Limited
Simplyhealth Business Services Limited
Simplyhealth Limited

All companies listed above are incorporated in the United Kingdom and have a registered office of Hambleden House, Waterloo Court, Andover, Hampshire, SP10 1LQ.

All companies listed above are consolidated in these financial statements.

The Group also acquired the remaining capital of two dental practices during the year and these subsidiaries are being held for resale.

Name of company	Registered office	Class and percentage of shares held
Crescent Dental Care Limited	2 Crescent Road, Hale, Altrincham, Cheshire, WA15 9NA	100% of ordinary shares
Clover House Dental Practice Limited	152 Skipton Road, Harrogate, HG1 4LL	100% of ordinary shares

All other investments are held through 100% controlled subsidiaries.

13. SALE OF UNDERTAKINGS

The Group sold three of its dental practices during the year for a profit of £0.3m.

Name	Type	Profit £m
Holmbush One LLP	Subsidiary	0.1
Beverley Highgate Dental Practice LLP	Joint Venture	0.1
Andrew Jones Dental Practice Limited	Joint Venture	0.1
Total		0.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

14. OTHER FINANCIAL INVESTMENTS AND DERIVATIVES

	2021		2020	
	Fair value £m	Cost £m	Fair value £m	Cost £m
Financial assets				
Debt and other fixed income securities	103.2	104.9	197.0	194.7
Derivative assets	0.4	-	1.2	-
Unlisted investments	10.5	7.2	3.6	7.7
Subsidiaries held exclusively for resale	4.1	4.1	-	-
Unit trusts	100.1	100.0	-	-
Total	218.3	216.2	201.8	202.4
Financial liabilities				
Derivative liabilities	(0.8)	-	(0.9)	-

The fair values of investments quoted in an active market are based on their bid market prices. For unlisted securities and all other financial assets for which there is no active market, the Group establishes fair value using appropriate valuation techniques.

These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis.

Derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of fixed interest futures and foreign exchange forward contracts are based on market prices.

Fixed interest futures are exchange traded and currency forward contracts are traded over the counter. Both have been classified as Level 2.

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Net gains or losses arising from changes in the fair value of the derivative financial instruments are recognised immediately in the statement of comprehensive income within the heading 'Investment Returns'.

	2021		2020	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Derivatives				
Foreign exchange forwards	0.4	(0.3)	1.2	(0.1)
Fixed interest futures	-	(0.1)	-	-
Joint ventures futures	-	(0.4)	-	(0.8)
Total	0.4	(0.8)	1.2	(0.9)

Offsetting

The Group does not offset financial assets and liabilities in the statement of financial position unless there is a legally enforceable right to offset and the Group has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

Except for fixed interest futures and foreign exchange forward agreements, the Group has no financial assets and financial liabilities that have been offset in the statement of financial position as at 31 December 2021 (2020 – £nil).

15. INVESTMENT IN JOINT VENTURES

Equity accounted investments

Equity accounted investments comprise of joint ventures over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The Group also has the right to its share of the net assets.

Joint ventures are accounted for using the equity method and are initially recognised at cost. The cost of the investment includes transaction costs. The carrying value of the investment is adjusted for the Group's share of any post acquisition profits or losses of the associated entity.

If the Group's share of losses exceeds its interest in an equity accounted investment, the carrying amount of that interest (including any long-term interests that, in substance, form part of the Group's net investment), is reduced to nil. In addition, the recognition of further losses is discontinued except to the extent that the Group has an obligation to make payments on behalf of the equity accounted investment.

Joint ventures

During the year the Group began its strategy to dispose of its investment in dental practices and at the year-end three joint ventures have been sold. A further two have become subsidiaries during the year and are held exclusively for resale pending the sale of Simplyhealth Partnerships Limited.

The Group's equity accounted joint ventures are categorised as follows:

	Number of businesses	Business activity	Principally operates in	Country of incorporation
Limited Liability Partnerships	4	Dental	UK	UK
Private Limited Companies	1	Dental	UK	UK

The details of investments in the joint ventures held by the Company as at 31 December 2021 are as follows:

Name of company	Registered office	Class and percentage of shares held
Buckingham House Dental LLP	Buckingham House 35 Graham Road Malvern Worcestershire WR14 2HU	50% of Partnership capital
Walford Mill Dental Care Limited	Knobcrook Road Wimborne Dorset BH21 1NL	50% ordinary shares
Outwood Dental Practice LLP	569 Leeds Road Wakefield West Yorkshire WF1 2JL	50% of Partnership capital
The Dental Practice at Dronfield Woodhouse LLP	Hambleden House Waterloo Court Andover Hampshire SP10 1LQ	50% of Partnership capital
Cottage Dental Ormskirk LLP	Hambleden House Waterloo Court Andover Hampshire SP10 1LQ	50% of Partnership capital

The Group's 50% interest in Beverley Highgate Dental Practice LLP and Andrew Jones Dental Practice Limited have been sold during the year. The Group purchased the additional 50% share capital of Crescent Dental Care Limited and Clover House Dental Limited during the year and they became subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

15. INVESTMENT IN JOINT VENTURES (CONTINUED)

Summarised financial information for joint ventures

The tables below provide summarised financial information for the joint ventures. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and the Group's share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	2021	2020
	£m	£m
Summarised financial information for joint ventures		
Revenue	8.7	8.0
Cash and cash equivalents	0.7	1.4
Other current assets	0.1	0.2
Current assets	0.8	1.6
Non-current assets	2.8	4.3
Current liabilities	(0.2)	(0.5)
Net assets	3.4	5.4
Percentage ownership	50%	50%
Reporting entity's share	1.7	2.7
Fair value adjustment and local accounting difference	0.1	1.6
Carrying amount	1.8	4.3
(Losses)/Profits from associates	0.4	(0.2)
Implicit goodwill	(0.2)	(0.3)
Impairment of investment	–	(0.9)
Share of (loss)/profit	0.2	(1.4)

16. CASH AND CASH EQUIVALENTS

	2021	2020
Group	£m	£m
Cash at bank	32.2	43.5
Cash equivalents	–	2.0
Third party funds held under trust	3.0	2.9
Total	35.2	48.4

The Company's cash balance at 31 December 2021 was £7.4m (2020 – £15.4m).

The Group administers a number of trust and client accounts under agreements between the Company and dentists in accordance with the declaration of trust for each account. The accounts are used to manage cash collected by the Company from patients for onward payment to dental practices. No right of set-off exists between the trust accounts and any other bank accounts of the Company.

Total balances held in the trust accounts at 31 December 2021 amounting to £3.0m (2020 – £2.9m) were included in the cash at bank and in hand on the Company's statement of financial position with an offsetting liability included in 'Other Creditors' (note 22).

17. OTHER DEBTORS

Group	2021 £m	2020 £m
Amounts falling due within one year:		
Non-insurance trade debtors	8.2	3.9
Corporation tax	1.7	–
Total	9.9	3.9

Company.

The Company has a debtors balance of £7.0m (2020 – £nil) at 31 December 2021 relating to amounts due from Group undertakings. The amounts due from Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

18. TANGIBLE ASSETS

Group	Computers and office equipment £m	Leasehold improvements, fixtures and fittings £m	Total £m
Cost:			
At 1 January 2021	7.6	3.7	11.3
Additions	0.4	0.2	0.6
Impairment	(0.4)	–	(0.4)
At 31 December 2021	7.6	3.9	11.5
Accumulated depreciation and impairment:			
At 1 January 2021	5.1	2.2	7.3
Charge for the year	0.7	0.3	1.0
At 31 December 2021	5.8	2.5	8.3
Net book value			
At 31 December 2021	1.8	1.4	3.2
At 31 December 2020	2.6	1.4	4.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

19. DEFERRED TAXATION

The Group's deferred tax assets calculated in accordance with FRS 102 were as follows:

	2021 £m	2020 £m
Asset relating to timing differences on fixed assets	1.8	1.7
Asset relating to short term timing difference	0.2	0.3
Total	2.0	2.0

The movement in the Group's deferred tax asset during the year was as follows:

	2021 £m	2020 £m
At 1 January	2.0	2.4
Adjustment in respect of prior years	(0.1)	–
Current year deferred tax	0.1	(0.4)
At 31 December	2.0	2.0

There are no unused tax losses or unused tax credits.

The net deferred tax liability expected to reverse in 2022 is £0.1m. This primarily relates to the reversal of timing differences on acquired intangible and tangible assets and capital allowances through depreciation and amortisation, offset by expected tax deductions when payments are made to utilise provisions.

The deferred tax balance has been calculated using the planned increase of the rate to 25% on 1 April 2023.

20. DEFERRED ACQUISITION COSTS

	Gross Provision	
	2021 £m	2020 £m
At 1 January	0.9	0.8
Additional costs incurred	3.0	2.7
Amortisation through statement of comprehensive income	(2.8)	(2.6)
At 31 December	1.1	0.9

Costs are only deferred and amortised if they are considered repayable in the event of cancellation.

21. CAPITAL AND RESERVES**Group**

Group capital consists only of accumulated profits as the Group has no issued share capital. Accumulated retained profits at 31 December 2021 were £237.8m (2020 – £250.7m).

Company

The Company's capital consists only of accumulated profits as it has no issued share capital. Total reserves at 31 December 2021 were £126.7m (2020 – £128.3m).

22. OTHER CREDITORS

	2021 £m	2020 £m
Amounts falling due within one year:		
Creditors arising out of direct insurance operations	10.4	0.9
Trade creditors	0.1	0.6
Third party funds	3.0	2.9
Insurance premium tax	4.9	5.8
Corporation tax payable	-	1.1
Other taxation and social security	1.0	1.0
Other creditors	4.6	1.7
Total	24.0	14.0

Included within creditors arising out of direct insurance contracts is an amount of £8.0m relating to the return of excess profits to consumer policy holders. The provision has been estimated by taking the membership numbers as at 31 March 2020 and applying approximately 65% of the monthly premium which will be refunded to the customer. In addition, £0.3m has been provided for the administrative expenses of processing the rebates and £1.0m of recoverable IPT.

Company

The Company has a creditors' balance of £11.4m (2020 – £11.4m) at 31 December 2021 relating to amounts due to Group undertakings. The amounts due to Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

23. TECHNICAL PROVISIONS

	Gross Provision	
	Provision for Unearned Premiums £m	Provision for Outstanding Claims £m
At 1 January 2021	77.7	19.1
Movement in provision	0.4	(1.4)
At 31 December 2021	78.1	17.7

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Group agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

The Group applies a prudent approach to its management of potential exposure to risks arising from its insurance contracts. A formal policy for managing insurance risk is in place and is overseen by the Risk and Capital Committee.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2021

23. TECHNICAL PROVISIONS (CONTINUED)

Gross provisions

The lines of risk underwritten by the Group are restricted to health insurance in which the Group has substantial experience. Where the Group wishes to enter into new lines this is done using a controlled approach in order to manage the risk associated with new areas of business. The Group's policy is to establish a specific claims reserve at any point in time on each line of business, based on claims reported up to and including the last day of the accounting period, plus an amount in respect of claims incurred but not yet reported. Trends in claim rates and other market data are reviewed on a regular basis and premiums for new contracts adjusted accordingly. Each class of contract has a large population of homogeneous policyholders, and no insurance contracts are subject to concentration risk as policyholders are based throughout the UK. No one client represents more than 10% of total turnover. Therefore, no insurance contracts are deemed subject to concentration risk.

The Directors have assessed that a deterioration of 15% (2020 – 15%) is the highest reasonably possible change in the loss ratio. Such a deterioration in the loss ratio of the health plan book during the year would have resulted in a reduction in profit before tax of £30.9m (2020 – £31.6m reduction in profit before tax) and a reduction in equity of £25.0m (2020 – £25.6m). The latter represents 10.5% (2020 – 10.2%) of the Group's capital. The Group's claims loss ratio has been disclosed in the Strategic Report as a key performance indicator.

Uncertainty about the amount and timing of claims payments is typically resolved within one year. Consequently, disclosure about claims development is not presented as this information is not considered relevant to the evaluation of the nature and extent of risks arising from insurance contracts.

Insurance contract maturities

The net cash outflows resulting from recognised insurance liabilities have the following estimated maturities:

- Unearned premium reserves are estimated to result in cash flows arising within 12 months of the year-end date; and
- For outstanding claims provisions, including the provision for claims incurred but not reported, approximately 90.4% (2020 – 90.9%) of the provision is expected to crystallise as cash outflows and inflows respectively within 12 months of the year-end date. The remaining cash flows, representing an immaterial amount of these provisions, are expected to be settled within the subsequent 12 months.

Due to the short-term claims nature of our products, we do not include an annualised claims triangle in our report.

Assumptions

The Group follows a process of reviewing its reserves for outstanding claims on a monthly basis. This involves an appraisal of each portfolio with respect to ultimate claims liability for the recent exposure period as well as for earlier periods, together with a review of the factors that have the most significant impact on the assumptions used to determine the reserving methodology. The work conducted on each portfolio is subject to an internal peer review, further review by external actuarial specialists, a management sign-off process and ultimately the Board committees.

The most significant assumptions in determining the net insurance reserves are the forecast monthly claims loss ratios by homogeneous risk group, and the extent to which reinsurers will share in the cost.

Changes in assumptions

During the year we have seen claims volumes increase but remain below the pre-pandemic levels. Average values remain above pre-pandemic levels and our claims provision assumptions reflect these changes.

24. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of profit/ (loss) on ordinary activities before tax to net cash flows from operating activities

	2021 £m	2020 £m
Profit/(Loss) on ordinary activities before tax and exceptional items	(14.7)	23.7
Adjustments for:		
Reversal of impairment of land and buildings	-	0.1
Realised and unrealised loss on investments	(1.1)	(2.6)
(Decrease)/Increase in insurance technical provisions	(1.0)	(0.9)
Loss on disposal of tangible assets	-	1.1
Profit on disposal of operations	(0.3)	(2.7)
Depreciation	1.1	1.3
Amortisation of intangible assets and goodwill	12.0	13.1
Impairment of goodwill	-	1.0
Impairment of tangible fixed assets	0.4	-
Impairment of investments	-	4.3
Operating cash flow before movement in working capital	(3.6)	38.4
Decrease/(Increase) in debtors	(4.8)	3.2
Increase/(Decrease) in creditors	11.2	(5.0)
Cash generated by operations	2.8	36.6
Taxation (paid)/received	(1.1)	(8.4)
Net cash flows from operating activities	1.7	28.2

25. FINANCIAL COMMITMENTS

(a) Capital commitments

Financial commitments to capital expenditure primarily relate to refurbishment of buildings.

Group	2021 £m	2020 £m
Capital expenditure	0.8	-

(b) Other financial commitments

Group	2021 £m	2020 £m
Sponsorship authorised and contracted for by the Board of Directors	1.6	2.3

(c) Leasing

The Group has the following future minimum lease payments under non-cancellable operating leases:

Group	2021 £m	2020 £m
Operating leases which expire:		
- within one year	0.2	0.8
- between one and five years	0.3	0.3
- in more than five years	-	-
Total	0.5	1.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
Year ended 31 December 2021

26. RELATED PARTY TRANSACTIONS

There were no related party transactions during the year.

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