

# **Liberty Mutual Insurance Europe Societas Europaea**

**Zurich Branch**

**Annual Report and Financial Statements  
31 December 2019**

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# Directors and Administration

## Directors

Keith Nicholson

Chairman and Independent Non-Executive Director

Dirk Billemon

Director (appointed 26 February 2020)

Graham Brady

Director (appointed 27 February 2019)

Nigel Davenport

Director

Philip Hobbs

Director

Matthew Moore

Director (resigned 3 December 2019)

Christopher Hanks

Independent Non-Executive Director

Fernand Grulms

Independent Non-Executive Director (appointed 1 March 2019)

Richard Reid

Independent Non-Executive Director

## Registered Office

Lintheschergasse 19, Zürich 8001

## Branch Manager

Felix Böni

## Registered Auditor

Ernst & Young LLP

# Management Report (according to art 961c para 3 CO)

## For the year ended 31 December 2019

### Overview:

Liberty Mutual Insurance Europe Societas Europaea, Zurich Branch ('the Branch' or 'LMIE Zurich') is a branch of Liberty Mutual Insurance Europe Societas Europaea ('LMIE'). Its principal place of business is Lintheschergasse 19, 8001 Zürich.

LMIE Zurich is a key part of LMIE's European region's operations and underwrites mainly financial lines, fine art and specie, professional indemnity, general liability, directors and officers, employment practices liability, pension trustee liability, kidnap and ransom, contingency, commercial crime and cyber.

### Business performance:

LMIE Zurich continued to grow business during the year ended 31 December 2019 despite the challenges of the market environment. The table below provides key performance indicators for the Branch:

CHF'000	2019	2018
Gross Premiums	43,562	34,158
Net Earned Premiums	29,687	23,666
Net Claims Incurred	(22,954)	(9,116)
Net Acquisition and administration expenses	(13,729)	(12,169)
<b>Underwriting result</b>	<b>(6,996)</b>	<b>2,381</b>
Loss ratio	77%	39%
Net Acquisition and administration expense ratio	46%	51%
Combined ratio	124%	90%

LMIE Zurich generated CHF 43,562k of gross written premium compared to CHF 34,158k in 2018, as it continued to grow its business in line with the Company's strategy.

The net premiums earned amounted to CHF 29,687k compared to CHF 23,666k in 2018, which is in line with gross written premium growth.

Net claims incurred increased from CHF 9,116k in 2018 to CHF 22,954k in 2019. The 2019 claims incurred are in line with expectations.

There was also an increase in acquisition costs and administrative expenses from CHF 12,169k in 2018 to CHF 13,729k in 2019 as a result of additional commissions from Liberty Specialty Markets Europe Sarl (LSME) and higher expenses allocated to LMIE Zurich from LSM.

As part of the Brexit strategy, LMIE SE has established and licensed an in-house coverholder in Luxembourg, LSME. LSME acts as an intermediary company, acting on behalf of LMIE SE continued underwriting on behalf of LMIE SE from its branches throughout Europe during 2019.

LSME employs all the European employees and it charges commission to LMIE Zurich for insurance intermediary services which is recognised through the income statement for the current year in line with LMIE Zurich accounting policies.

The LSM Group expense allocation model was updated in 2019 to reflect LMIE business growth leading to higher costs being allocated to LMIE and LMIE branches.

### The average annual number of full-time positions:

The Branch had no employees in 2019 (2018: 0).

### The Company's conduct of a risk assessment:

LMIE Zurich has implemented the LMIE Risk Management Framework (RMF) & and the LMIE Internal Control Framework (ICF) (referred to in the LMIE SFCR), which is applicable to all LMIE operations. We

consider these frameworks to have general application across all branches, although specific branch Risk Management considerations are noted where relevant.

As part of the annual LMIE ORSA report, a specific section is also prepared in respect of LMIE Zurich. This covers Zurich-specific considerations including risks and controls to the extent that they differ from the overall LMIE profile – captured by a separate branch controls register – the activities of the LMIE Zurich Management Committee, risk quantification and the level of tied assets.

LMIE's risk profile is assessed at an overall LMIE level as described in the LMIE's SFCR Section C which will cover the following risk categories:

- Underwriting risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Other material risks

The Board does not believe there is a significant impact on the risk profile of LMIE from the operations of LMIE Zurich. As described above a separate control register is in place to monitor and oversee the control framework of LMIE Zurich.

#### **Research and development activities:**

LMIE Zurich's objective is to grow market presence by practising technical underwriting, whilst maintaining a combined ratio that is within the Company's risk appetite. The management expect a hardening market where premium rates will increase depending on the different lines of business and the geographical scope (e.g. with or without US exposure).

The management will aim to further grow general liability, and fine art & specie insurance in an attempt to diversify the Branch's business. LMIE Zurich will contribute to LMIE strategic European growth walk initiative over the coming years.

#### **COVID-19**

The COVID-19 pandemic is a post-balance sheet event causing global economic uncertainty and social restrictions which are directly impacting the market. Liberty Specialty Market's ("LSM") Business Continuity Plan has been triggered which includes LMIE SE Zurich's Branch ("Zurich branch") and until further notice, all Zurich branch employees are working remotely. Our systems and processes are in place to ensure that we continue to deliver a high level of service and responsiveness to brokers, clients and regulators. This is being carefully monitored on an ongoing basis.

The COVID-19 pandemic is having a direct impact on the risks for the Zurich Branch and these are being regularly monitored; which includes an assessment of whether the controls currently in place are adequate to mitigate the evolving risks. Controls in place to manage the increased risk include:

- LMIE has set up a dedicated contact point to provide our policyholders with assistance and to help them find the right person to process a claim;
- LSM Executive Committee meetings held weekly to consider development of the global pandemic and implement business continuity actions in line with government advice;
- Regular Zurich branch Management Committee meetings
- Ongoing monitoring of the impact on the Zurich Branch assets and liabilities, claims, and solvency position with planned management actions in place to respond; and where appropriate regular engagement with the market and regulators via several forums.

## Risk mitigation techniques

Despite the emerging impacts of COVID-19, LMIE's management has ensure our business model is sustainable over the medium term. This will include the management of financial risks ensures that LMIE is able to withstand an extreme event and trade forward; the risk of operational and other events is managed to ensure LMIE maintains its strong reputation.

We use various risk mitigation techniques to manage the exposure to these risks by setting and monitoring a risk appetite framework which includes:

- Risk exposure - In addition to the above, The Zurich Branch company only covers a small number of policies with a high risk of damage (Contingency and Financial Risk Solutions), and the expected financial impact is therefore small. The D&O business is currently very uncertain and emerging experience is being monitored. The remaining business areas are considered to be low-risk.

In addition to the above, the Zurich Branch benefits from the company wide significant reinsurance coverage such as the LMIE umbrella coverage and a Stope loss cover with Liberty Mutual Group. LMIE at a company level. also conducting a more thorough medium-term liquidity review in order to have additional sight of liquidity requirements through market turbulence and Covid 19 claims.

- Investment Portfolio & Economic risks - the Covid impact to date on the Tied Asset assets held by LMIE has been negligible, as the company's tied assets are all cash deposits held with FINMA-approved banks in Switzerland.
- Tied Asset Coverage and Technical Provisions – The Zurich Branch tied assets (as defined) by Article 74 have been covered at all times during Q1 2020. The Covid impact to date on the Tied Asset assets held by LMIE has been negligible, as the company's tied assets are all cash deposits held with FINMA-approved banks in Switzerland.
- The Zurich Branch does not expect any significant effects on the overall technical provisions. Claims reserves are expected to increase in the medium term and the UPR may decrease for policies where the final premiums are linked to sales. However, it is expected that the currently booked UPR will be sufficient to cover the emerging experiences.

The COVID-19 pandemic has created operational, economic uncertainty and turbulence in financial markets which has impacted individuals and businesses. The full impact of this on the insurance industry is uncertain and our initial assessment has identified those lines of business most likely to be impacted for the Zurich Branch, however the full extent of the losses and the impact upon pricing will become clearer as the year progresses.

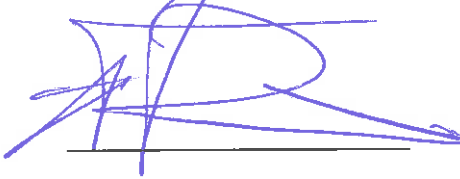
The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore a non-adjusting event as the associated conditions giving rise to a pandemic arose after the balance sheet date.

Management will regularly monitor developments in this area and take appropriate actions as needed. Note 13 significant events occurring after the balance sheet date provides further detail.

**Future prospects:**

We are publishing this report at a challenging time where COVID-19 will test our people, our customers, our partners, our governments, and our own organisation. We are confident in our ability to meet the challenges we face and particularly support our business partners and customers in their time of need.

Zurich, 30<sup>th</sup> April 2020

A handwritten signature in blue ink, consisting of several overlapping loops and lines, positioned above a horizontal line.

Felix Böni – General Manager Switzerland

# Income Statement

For the year ended 31 December 2019

CHF'000	Notes	2019	2018
Gross Written Premiums		43,562	34,158
Reinsurers' share of written premiums		(11,192)	(4,798)
<b>Net Written Premiums</b>		<b>32,370</b>	<b>29,360</b>
Gross change in unearned premiums	7	(4,360)	(1,964)
Reinsurers' share of change in unearned premiums	7	1,677	(3,730)
<b>Net Earned Premiums</b>		<b>29,687</b>	<b>23,666</b>
<b>Total Income from insurance business</b>		<b>29,687</b>	<b>23,666</b>
Gross claims paid		(10,056)	(5,112)
Reinsurers' share of claims paid		562	1,041
Gross change in claims and equalisation reserve	7	(16,478)	(7,615)
Reinsurers' share of changes in claims reserves	7	3,018	2,570
<b>Net Claims Incurred</b>		<b>(22,954)</b>	<b>(9,116)</b>
Acquisition costs		(12,233)	(10,548)
Reinsurers' share of acquisition costs		1,801	1,242
<b>Net Acquisition costs</b>		<b>(10,432)</b>	<b>(9,306)</b>
Administrative expenses	8	(3,297)	(2,863)
<b>Total expenses from insurance business</b>		<b>(36,683)</b>	<b>(21,285)</b>
Other financial expenses		(545)	(649)
<b>Operating result</b>		<b>(7,541)</b>	<b>1,732</b>
Other income	9	3,483	(1,327)
<b>Result before taxes</b>		<b>(4,058)</b>	<b>405</b>
Direct Taxes		(480)	(278)
<b>Result after taxes</b>		<b>(4,538)</b>	<b>127</b>



## Balance Sheet

As at 31 December 2019

CHF'000	Notes	2019	2018
<b>Assets</b>			
Cash and Cash equivalents	2	114,540	109,152
Reinsurers' share in technical reserves	5	19,807	19,476
Receivables in respect of insurance business	3	8,575	4,378
Other receivables		573	1,917
Prepaid expenses			32
<b>Total Assets</b>		<b>143,495</b>	<b>134,955</b>
<b>Liabilities and Equity</b>			
Gross technical reserves	5	102,788	83,556
Payables in respect of insurance business	4	375	1,246
Other liabilities		839	8,685
<b>Total Liabilities</b>		<b>104,002</b>	<b>93,487</b>
Liaison account with head office		37,786	35,223
Profit/(Loss) carried forward		6,245	6,118
Profit/(Loss) account		(4,538)	127
<b>Total Equity</b>	6	<b>39,493</b>	<b>41,468</b>
<b>Total Liabilities and Equity</b>		<b>143,495</b>	<b>134,955</b>

The notes on pages 6 to 10 form part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 1. Accounting Policies

### 1.1. General Information

Liberty Mutual Insurance Europe Limited, Zurich branch (the Branch), is the Swiss branch of LMIE, a company located in Duchy of Luxembourg (prior to 1 March 2019, the registered address of LMIE was in London, UK).

LMIE underwrites insurance and reinsurance business from its head office in Luxembourg (prior to 1 March 2019 the head office was located in the UK) and its branches across Europe.

The main activity of the Branch is to provide insurance coverage for clients and risks located in Switzerland.

The Branch is a key part of LMIE's European region's operations and underwrites mainly general liability focusing on financial lines, fine art and specie, terrorism, professional indemnity, energy and construction, D&O and cyber.

### 1.2. Legal Form

The Branch is domiciled in Zurich, Switzerland and was established as a branch of the head office located in the Duchy of Luxembourg (prior to 1 March 2019, the registered address of LMIE was in London, UK). Further information on the head office can be obtained in the LMIE financial statements.

### 1.3. Financial reporting standards

The annual accounts for the Branch have been prepared in accordance with Swiss law. The main accounting and valuation principles used, which are not already specified by the Code of Obligations, are described as follows.

### 1.4. Foreign currency translation

The currency in which the Company operates is Swiss Francs (CHF) (functional currency). Expenses and Income in foreign currencies are converted to CHF at the average rate. Balance sheet items are translated at the exchange rate ruling on the reporting date. Exchange differences are reported through the Income Statement.

The main exchange rates used are presented below:

USD to CHF	Average	Closing
2019	0.9828	0.9684
2018	0.9920	0.9858

### 1.5. Related parties

Related parties include all companies with the Liberty Mutual Group. Transactions with related parties are recorded at arm's length.

### 1.6. Cash and cash equivalents

The cash and cash equivalents includes cash holdings & bank deposits and are recorded at their nominal value.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 1. Accounting policies (continued)

### 1.7. Technical reserves

#### Case reserves

Case reserves represent the best estimate of the ultimate payment for claims reported and open as of the Balance Sheet date.

#### Incurred But Not Reported (IBNR) reserves

IBNR reserves are estimates of the amounts required to settle claims that have been incurred but not reported. These reserves are calculated by the appointed actuary and are in line with the Branch's reserving policy as submitted to FINMA.

#### Provisions for unearned premiums

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date.

#### Equalisation provisions

Equalisation reserves are calculated by the appointed actuary and are in line with the Company's reserving policy as submitted to FINMA.

### 1.8. Revenue recognition

Premiums are recorded at inception of a contract and earned over the contract period.

Realised investment gains/losses and other income are recognised when the transactions occur.

### 1.9. Tangible fixed assets

Expenditure on leasehold improvements, software, computer equipment, motor vehicles, fixtures, fittings and office equipment is capitalised and depreciated over the estimated useful economic lives of the assets on a straight line basis.

The periods used to depreciate such assets are as follows:

Leasehold improvements	Remaining lease term
Software	3 years
Computer Equipment	3 years
Motor Vehicles	4 years
Fixture, fittings and office equipment	5 to 10 years

Depreciation is included as part of administration and other expenses for insurance purposes. Carrying values of the tangible fixed assets are also regularly reviewed for impairment.

### 1.10. Leases

Rentals under operating leases are charged to the income statement in equal annual instalments over the period of the lease.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 2. Cash and cash equivalents

CHF'000	2019	2018
Bank Accounts	8,573	7,569
Bank Deposits	105,967	101,583
Deposits with affiliated companies	-	-
<b>Total cash and cash equivalents</b>	<b>114,540</b>	<b>109,152</b>

## 3. Receivables in respect of insurance business

CHF'000	2019	2018
Due from policyholders	8,030	4,194
Due from reinsurance companies	545	184
<b>Total receivables</b>	<b>8,575</b>	<b>4,378</b>

## 4. Payables in respect of insurance business

CHF'000	2019	2018
Due to reinsurance companies	375	1,246
<b>Total payables</b>	<b>375</b>	<b>1,246</b>

## 5. Technical reserves

CHF'000	2019	2018
General unearned premium reserves	15,862	11,704
Reinsurers' share of unearned premium reserves	(3,877)	(2,257)
<b>Net unearned premium reserves</b>	<b>11,985</b>	<b>9,447</b>
Gross Claims reserves	75,232	62,337
Reinsurers' share of claims reserves	(15,930)	(17,219)
<b>Net claims reserves</b>	<b>59,302</b>	<b>45,118</b>
Equalisation reserves	11,694	9,515
<b>Total gross technical reserves</b>	<b>102,788</b>	<b>83,556</b>
<b>Total reinsurers share of technical reserves</b>	<b>(19,807)</b>	<b>(19,476)</b>
<b>Total net technical reserves</b>	<b>82,981</b>	<b>64,080</b>

## 6. Statement of changes in equity

CHF'000	2019	2018
Liaison account with head office as at 1 January	35,223	46,326
Transfers to the head office	2,563	(11,103)
<b>Liaison account with head office as at 31 December</b>	<b>37,786</b>	<b>35,223</b>
Prior period result brought forward	6,245	6,118
Result for the period	(4,538)	127
<b>Balance as at 31 December</b>	<b>39,493</b>	<b>41,468</b>

The financial statements for the year ended 31 December 2019 are prepared on a consistent basis with the regulatory return on a prospective basis.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 7. Changes in technical reserves

CHF'000	2019	2018
Change in gross unearned premium reserves	4,360	1,964
Change in reinsurer's share of unearned premium reserves	(1,677)	3,730
<b>Change in net unearned premium reserves</b>	<b>2,683</b>	<b>5,694</b>
Change in gross claims reserves	14,131	6,833
Change in reinsurer's share of claims reserves	(3,018)	(2,570)
<b>Change in net claims reserves</b>	<b>11,113</b>	<b>4,263</b>
Change in equalisation reserves	2,347	782

## 8. Administrative expenses

CHF'000	2019	2018
Personnel expenses	-	-
Other operating expenses	3,297	2,863
<b>Total administrative expenses</b>	<b>3,297</b>	<b>2,863</b>
Total acquisition cost	10,432	9,306
<b>Total acquisition cost and administrative expenses</b>	<b>13,729</b>	<b>12,169</b>

The Branch had no employees in 2019 (2019: zero). All Zurich staff are employed by LSME.

## 9. Other Income

CHF'000	2019	2018
Foreign exchange gains	1,546	(1,327)
Allocated investment return	1,937	-
<b>Total Other Income</b>	<b>3,483</b>	<b>(1,327)</b>

The foreign exchange gain is driven by the strengthening of USD against CHF.

Financial investments are held by the head office on behalf of the Branch. Earnings from these investments are allocated to the Branch based on net technical reserves.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 10. Audit fees

CHF'000	2019	2018
Audit services	77	95
Other services	-	-
<b>Total fees for audit services and other services</b>	<b>77</b>	<b>95</b>

Audit fees are included within Administration expenses.

## 11. Residual amount of leasing liabilities

The maturity profile of lease obligations that do not expire or cannot be cancelled within 12 months is presented below:

CHF'000	2019	2018
1 to 5 years	181	180
<b>Total</b>	<b>181</b>	<b>180</b>

## 12. Related Parties

During the year, the Company entered into transactions in the ordinary course of business with other related parties. Trading balances outstanding at 31 December are as follows:

CHF'000	2019	2018
Inter-Branch payable	-	2,367
Inter-Branch receivable	572	1,917
Reinsurance recoverable	12,696	13,749
Allocated investment return	1,937	-

Inter-Branch payable balances with related parties are included within Other Liabilities.

Inter-Branch receivable balances with related parties are included within Other Receivables.

Reinsurance recoverable balance with related parties forms part of the Reinsurers' share in technical provisions.

Allocated investment return balance with related parties is included within Other Income.

## 13. Significant events occurring after the balance sheet date

In the period since the year end, COVID-19 pandemic has been crystallised as a risk and is treated as an event under the entity's Business Continuity Plan, requiring oversight by a Crisis Management Team ("CMT") with effect from 24th February 2020 with all staff currently working from home ("WFH"), including the LMIE SE Zurich Branch ("Zurich branch") since Tuesday 17th March 2020.

Even though WFH may pose a number of challenges to staff across LSM, including the Zurich Branch some of which will be unanticipated at this stage, and LSM is committed to ensuring that staff across the business receive adequate support and guidance in maintaining their personal health and well-being. The Board are confident that systems and processes are in place to ensure that we continue to deliver a high level of service and responsiveness to brokers, clients and regulators.

With the recent volatility in financial markets and current economic uncertainty on individuals and businesses could lead to claims across a number of classes. At this early stage of development, it is difficult to assess the financial impact of any potential claims on either technical provisions or capital requirements. However, taking into consideration current laws and regulations, we do not expect these

# Notes to the Financial Statements

for the year ended 31 December 2019

to impact LMIE's ability to satisfy its' regulatory solvency requirements including tied asset coverage, as defined by Article 74 for the Insurance Supervision Ordinance, for the Zurich Branch.

## 14. Ultimate parent company

LMIE Zurich is a branch of LMIE. The ultimate parent company of LMIE is Liberty Mutual Holding Company Inc. of Boston, 175 Berkley Street, Boston, Massachusetts 02117, U.S.A. a company incorporated in the United States of America. The smallest higher group of companies for which group accounts are drawn up and of which this company is a member is Liberty International Holdings LLC, a company incorporated and registered in the USA.

Copies of the group accounts of the Liberty International Holdings LLC and of Liberty Mutual Holding Company Inc. of Boston are available from the companies' registered office, 175 Berkley Street, Boston, Massachusetts 02117, U.S.A.

