

CHAIR'S REPORT

Bar Mutual's Financial Position as at 31 March 2022

Operating Results

In the interim report sent to Members in January 2022 I commented that the financial performance of insurance companies is often cyclical. Explaining the deteriorating claims experience on the 2018/19 and the 2019/20 policy years – both of which were turning out to be Bar Mutual's worst years for claims – I observed that this was a reflection of the "roller coaster" ride professional indemnity insurers were sometimes subject to.

A consideration of Bar Mutual's recent year-end operating results shows a record of deficits. Initially these were planned deficits so as to reduce surplus capital but in the last two sets of statutory accounts there were deficits principally due to adverse claims experience. In the statutory accounts to 31 March 2020 Bar Mutual reported a deficit of £1.6m. This increased to a deficit of £3.0m in the financial statements to 31 March 2021. In my January 2022 interim report I informed Members that the forecast financial results for the year to 31 March 2022 was a deficit of £2.0m. Since then I am pleased to report that Bar Mutual's financial performance has improved markedly. Instead of posting a deficit for the year to 31 March 2022 of £2.0m we will now be reporting a surplus of £2.4m.

As to the explanation for this improvement, it is almost exclusively the result of better than expected claims experience over the second half of the year. My January 2022 interim report was based on the claims position six months into the year, which combined the claims incurred to date to the half-year position and the forecast for claims that would be incurred to the end of the year. By the year-end, the combination of a number of welcome victories on several large claims and a reduction in the actuarially projected year-end claims reserves produced an improvement in the claims position compared to the mid-year forecast by just over £3.9m.

In some years the return on Bar Mutual's investments is a material contribution to the year-end results. Bar Mutual's investment policy is not designed to produce stellar returns. Rather, the investment policy is intended to preserve the value of Bar Mutual's funds by targeting a level of return at or above inflation, inflation being measured against the consumer price index. Net investment income for the financial year to 31 March 2022 was £1.1m (a return of 1.8% of the total funds invested). This compares to an investment return last year of 2.6m (3.66%). Given the runaway rate of inflation, enormous challenges lie ahead in achieving investment performance that keeps abreast of the rate of inflation whilst maintaining the conservative nature of Bar Mutual's investments. It is also important to bear in mind that more adventurous investments trigger an increase in Bar Mutual's Solvency Capital Requirement ("SCR") and an increase in the capital reserves that Bar Mutual carries. On behalf of the Board and Members I thank the members of the Investment Committee, chaired by Jasbir Dhillon QC, and the Investment Managers, for their achievements in the most challenging of investment conditions and their continuing careful attention to Bar Mutual's investments.

Bar Mutual's capital position

A second theme I touched on in my January 2022 interim report was Bar Mutual's capital position and its risk appetite for capital.

As a regulated insurance company Bar Mutual is required to hold regulatory capital – composed of Tier 1 and, subject to regulatory approval, Tier 2 capital – that exceeds its SCR.

CHAIR'S REPORT (continued)

Bar Mutual's capital position (continued)

In January I noted that Bar Mutual's Tier 1 regulatory capital at the year-end was forecast to be £34.4m compared to a forecast SCR of £22.7m, a solvency ratio of 152%.

In the event, while the SCR increased to £25.3m at the year-end, Tier 1 regulatory capital increased to £41.9m. This resulted in a solvency ratio of 166% which underlines the fact that Bar Mutual continues to be in a strong financial position.

As noted in previous annual financial statements Bar Mutual's Board has an agreed policy on its risk appetite for capital. This is the prudent level of capital the Board judges Bar Mutual should hold and maintain in order to promote its long-term sustainable success. In summary, the risk appetite requires the calculation of a lower and an upper target level for capital. The target levels are in part determined by the SCR and once the limits are set then Bar Mutual endeavours to maintain its Tier 1 capital within this target range. At the time of my January 2022 interim report Bar Mutual was forecast to be £0.7m below its forecast lower target level for capital of £35.1m.

As with the operating results, I am pleased to report that, with Tier 1 capital of £41.9m and a lower target level for capital under the risk appetite of £38.0m, Bar Mutual's capital exceeds the lower target level for capital by £3.9m. It is therefore well within the target range under the risk appetite.

Given the unpredictability of insurance ventures your Board obtained the Prudential Regulation Authority ("PRA")'s approval in 2019 to Bar Mutual recognising as Tier 2 capital a portion of the deferred premiums on open policy years that it has to date provided to Members. In certain circumstances Bar Mutual can add its Tier 2 capital to what it holds in Tier 1 capital in order to meet its SCR. At the year-end the total Tier 2 capital deemed available to Bar Mutual was £15.0m, of which £12.6m would be eligible to be used to meet the SCR. Combining Tier 1 and Tier 2 capital results in total regulatory capital of £54.6m as at 31 March 2022 and a solvency ratio of 216%.

Board of Directors and Corporate Governance

I reported in the financial statements to 31 March 2021 the engagement Bar Mutual had had with the PRA on the tenure limits set out in Bar Mutual's Nominations Policy and the size of its Board. The discussions were very constructive and as a result Bar Mutual reduced the length of time its Directors could serve on the Board but the PRA agreed to a transitional process to allow for succession planning.

Implementation of the change in tenure limits agreed with the PRA resulted in the departure of some of our Directors in the course of 2021 and early 2022. I mentioned in previous Chair's reports the loss of the services of Gregory Denton-Cox, Nina Goolamali QC, Joanna Smith QC (now Mrs Justice Joanna Smith) and Michael Brindle QC. Michael Horne QC has now joined the list of departed directors, although his tenure came to an end shortly after the financial year.

The Nominations Committee took the opportunity this year to strengthen Bar Mutual's Nominations Policy, updating it in general and ensuring that Bar Mutual continues to operate with a Board of Directors that is diverse and inclusive.

CHAIR'S REPORT (continued)

Board of Directors and Corporate Governance (continued)

Thus, in the course of the financial year, a total of three new Directors joined the Board. I took the opportunity to welcome them to the Board in my January 2022 interim report. Since the year end a further four Directors have joined the Board and I therefore take this opportunity to welcome them too. The full list of new Directors with their areas of particular specialism is set out below:

<i>New Director</i>	<i>Principle Practice Area</i>
Sushma Ananda	Insurance
Ruth Bala	Financial Services and Banking (Appointed 19 May 2022)
Richard Handyside QC	Commercial Litigation and Financial Services
Anna Markham	Company and Financial Services
Rebecca Murray	Revenue (Appointed 19 May 2022)
Robert Purves	Financial Services and Regulation (Appointed 19 May 2022)
Steven Snowden QC	Personal Injury (Appointed 24 May 2022)

I write this Chair's Statement as my last. My tenure limit has expired and so I will be stepping away from the role of Chair and resigning as a Director of Bar Mutual. Having joined the Board in November 2007, and having been privileged to have been appointed as a Deputy Chair of the Board in 2009 and as Chair of the Board in April 2013, I will have served a total of just under fifteen years, nine of them as Chair of the Board. It has been an immense honour to have been given the opportunity to contribute to the Bar by ensuring that Bar Mutual, which was set up thirty-four years ago as a mutual insurer for the self-employed Bar, continues to meet the needs of its Members; and that its financial foundations are strong and so contributing to its continued survival. It has been especially gratifying to serve on a Board populated by very able and committed Directors. As Chair I have benefited hugely from a culture of open debate and challenge between Directors.

I remind Members that all the non-executive Directors serve on a pro-bono basis, our Articles of Association expressly prohibiting their remuneration. In my time I have witnessed a considerable increase in the Directors' workload because of a significant growth in the reach of insurance regulation. I therefore wish to record my deep gratitude to all past and current Directors for their labour. It has been a privilege to serve with them on the Board of Bar Mutual and the Bar owes a debt of gratitude to them.

As with any modern Board, succession planning is an essential responsibility of the Nominations Committee. In line with the requirements of good corporate governance, my successor was identified some while ago. She is an eminent and well-respected insurance practitioner who is also thoroughly well-grounded in issues relating to professional liability insurance. She has spent a considerable amount of time absorbing the business of Bar Mutual. She was appointed to the Board in November 2014 and, with two exceptions, she has been a member of all of Bar Mutual's Board committees. It therefore gives me enormous pleasure to report that Rebecca Sabben-Clare QC will succeed me as Chair of the Board on my retirement in July 2022.

CHAIR'S REPORT (continued)

In addition to the smooth transition of the Chair of the Board, the Nominations Committee has also sought to ensure transparency in the current leadership of its Committees. I list below the Chairs and Deputy Chairs of the Committees of the Board following my retirement in July.

<i>Committee</i>	Chair and Deputy Chair
<i>Audit and Risk</i>	Christopher Pocock QC Simon Salzedo QC
<i>Claims</i>	Rebecca Sabben-Clare QC David Railton QC
<i>Investment</i>	Jasbir Dhillon QC Charles Dougherty QC
<i>Legal Services</i>	Rebecca Sabben-Clare QC Christopher Pocock QC
<i>Nominations</i>	Rebecca Sabben-Clare QC Tom Coghlin QC
<i>Management Fee and Oversight</i>	Christopher Pocock QC Sharif Shivji QC
<i>Rating and Reinsurance</i>	Rebecca Sabben-Clare QC David Scorey QC
<i>Reserves</i>	Sharif Shivji QC Richard Handyside QC
<i>Rules and Cover</i>	Rebecca Sabben-Clare QC

Finally, I wish to express my thanks to our Managers for their continuing contribution to the work of Bar Mutual and all the support and assistance they have provided to me as a Director and as the Chair of the Board. I would single out in particular Ahmed Salim and Rajiv Harnal, who act respectively as Chief Executive Officer and Chief Financial Officer of Bar Mutual, for their outstanding and dedicated work in those roles over the years in the management of the affairs of Bar Mutual and in supporting the work of the Board.



Colin Edelman QC

Chair

5 July 2022