

CHAIRMAN'S REPORT

Bar Mutual's Financial Position as at 31 March 2020

Results for the year to 31 March 2020

The ravages of the covid-19 pandemic reversed what would otherwise have been a satisfactory financial performance for the year to 31 March 2020. In my Chairman's Interim Report of January 2020 I noted that the financial forecast for the year to 31 March 2020 was a modest targeted loss of £0.7m. I explained that the forecast loss was part of a controlled strategy to gradually reduce the level of excess capital held by Bar Mutual so that it was within the target range set by its risk appetite, a policy guiding the amount of capital in excess of its liabilities for claims Bar Mutual should target.

The result for the financial year to 31 March 2020 is in fact a deficit of £1.570m.

Considering very briefly the factors giving rise to this loss, the first observation is that the cost of claims has been relatively stable. The total net claims incurred for the year was £12.6m (this is the amount paid in the financial year adjusted for any reinsurance recoveries and changes in the claims reserves), which is not much different from the total of £12.2m incurred to 31 March 2019. Two developments have however driven the adverse result for the year to 31 March 2020. The first is an increase in the premium Bar Mutual paid for its reinsurance programme, under which it transfers the cost of claims above a fixed amount to reinsurers. This year the premium paid for the reinsurance programme increased from £3.1m to £3.5m. The increase in reinsurance costs was of course factored into the forecast in my January Interim Report. The second and more important development was the late reduction in the return generated on Bar Mutual's investments. Last year I was able to report a net investment return to 31 March 2019 of £2.4m (a return of 3.59% of the total funds invested). In contrast, this year, the investment return fell to £0.7m (0.81%). Although the investment markets were lashed by the measures taken to contain the covid-19 pandemic, producing unprecedentedly difficult and volatile investment market conditions in the first quarter of 2020, it is worth noting that Bar Mutual's investment portfolio nevertheless managed to produce a positive return. For this, it is appropriate that I thank our Investment Managers and the Investment Committee for the work they have done in steering our investments through these extraordinarily challenging times.

Bar Mutual's capital position

Despite the loss for the year, I am pleased to inform Members that Bar Mutual remains in a very strong financial position. As at 31 March 2020 its regulatory capital stands at £40.8m against a regulatory capital requirement of £19.0m.

The level of capital Bar Mutual targets is determined by the risk appetite agreed by the Board. Bar Mutual's risk appetite requires it to hold an amount in capital within a lower and upper target level. As at 31 March 2020 the lower target level for capital under this policy was £30.3m and the upper target level was £41.6m. With capital of £40.8m Bar Mutual's regulatory capital is a shade below the upper target level. The Board remains confident that Bar Mutual's capitalisation puts it in a strong position to face the future, even where the environment is as volatile and uncertain as the current one.

Covid-19

The Board is well aware of the severe financial difficulties many of Bar Mutual's Members face as a result of the arrival of the covid-19 pandemic. There has been a dramatic reduction in the work of much of the publicly funded Bar, and this collapse in work is of course not confined to this sector of the Bar. With a view, therefore, to relieving the financial pressure on some of its Members, Bar Mutual has offered Members facing financial difficulties the option of paying their annual Bar Mutual premium due on or before 1 April 2020 in two tranches, with the second tranche payable by 31 December 2020. In a further measure intended to provide assistance to the self-employed Bar as a whole, the Board has also made a significant contribution to the Barristers' Benevolent Fund. I should add that the Board will naturally continue to keep the position and its response to it under review.

Minimum Terms of Cover for Self-Employed Barristers

I reported last year on the introduction of Minimum Terms of Cover for Self-Employed Barristers by the Bar Standards Board ("the BSB Minimum Terms"). One result of this is that Bar Mutual is now required to insure the legacy liabilities of some of its Members. Under the BSB Minimum Terms, where a Member held an ownership interest in a BSB approved multi-person entity and returns to practice, either as a self-employed barrister or as a single person entity, the Member's practice will be treated as the successor practice (and there may be more than one successor practice) of the prior multiperson entity practice. This is the case even if Bar Mutual did not previously insure the multi-person entity. Not all multi-person entities seek insurance from Bar Mutual and indeed there are occasions when Bar Mutual declines to offer insurance to multi-person entities. The mutual obligation to seek and for Bar Mutual to provide insurance under the BSB Handbook does not apply to multi-person entities.

In order to mitigate the potential financial impact on Bar Mutual of claims generated by multi-person entities that had not been insured by Bar Mutual when they ceased to exist but will be insured as a prior practice under a Member's policy with Bar Mutual, the terms of cover are to be amended as of 1 August 2020 to introduce a limit of cover of £0.5m to claims made by Members in these circumstances.

As an additional measure intended to reflect the risk of claims to Bar Mutual, a premium surcharge will also be applied to Members purchasing insurance from Bar Mutual where they had an ownership interest in a multi-person entity which had not been insured by Bar Mutual when it ceased to exist.

Board of Directors

In accordance with the terms of the Board's Nominations Policy, Gregory Denton-Cox will not be seeking re-election to the Board at the Annual General Meeting in October 2020, having served the maximum period provided for in that policy. Greg was appointed to the Board in 2010 and has served on the Audit and Risk Committee (as Deputy Chairman) and as a member of the Investment Committee. He has provided invaluable assistance on a range of regulatory issues and on company law matters. On behalf of the Board and all Members I would like to express our heartfelt thanks to him for the time he has committed to Bar Mutual whilst continuing to develop a very busy commercial practice. We wish him well for the future.

A second Director who will be stepping away from the Board is Nina Goolamali QC. Nina joined the Board in 2015 and has made a valuable contribution to the work of the Audit and Risk Committee, the Legal Services Act Committee and the Nominations Committee. The demands of her thriving practice are taking her away from the Board, and on behalf of the Members and her fellow Directors I wish to put on record our gratitude for her industry as a director of Bar Mutual.

Finally, I would like to take this opportunity to thank all my fellow Directors for the time and effort they dedicate to ensuring the continued success of Bar Mutual which is now in its 32nd year of operation. As ever, I also wish to thank our Managers for their quality of service they provide in running Bar Mutual.



Colin Edelman QC
Chairman
2 July 2020