CHAIR'S REPORT

Operating Results for the year to 31 March 2024

The financial performance of professional liability insurance business can be difficult to forecast because of its inherent volatility.

Last year Bar Mutual reported a loss of £0.3m for the period to 31 March 2023. Bar Mutual's insurance operations generated a surplus £2m which was extinguished by losses on Bar Mutual's investment holdings of £3.3m, which was the main driver for last year's operating loss of £0.3m.

This year Bar Mutual is reporting a surplus of £1.484mm for the period to 31 March 2024. As Members would expect, your Board continuously monitors the financial performance of the Company, and until very late in the financial year the forecast final result was a modest operating surplus of about £0.130m. In the event, the insurance operations produced a loss of £0.5m, but this was offset by the sound performance of Bar Mutual's investments. The investments generated a total net return of £2.6m resulting in a final surplus of £1.484mm for the year. This is a positive performance, especially given that Bar Mutual's three largest items of expenditure increased in the course of the year. The cost of reinsurance rose by 28% (to £7.4m from £5.8m), the claims costs increased by 15% (to £15m from £13m) and the management fee climbed 13% (to £3.5m from £3.1m). This was also the year when the second and final tranche for the cost of updating the IT system (£0.5m) was incurred.

An unexpected development in the course of the year was the re-emergence of three claims from older policy years (2013 and 2015), some of which required material reserves. All bore the same characteristic, namely personal injury claims that resurfaced after many years of inactivity. A second feature impacting the claims position was the continuing need, to recognise the impact of high inflation on the claims reserves. This is in accordance with views expressed by the Prudential Regulation Authority (the "PRA") to the insurance industry as a whole.

Given the potential volatility of professional liability insurance, Members are reminded of the policies your Board has adopted to ensure that Bar Mutual is at all times adequately capitalised.

First, Bar Mutual's claims reserves are set at a deliberately conservative level compared to other insurers, with the risk appetite agreed by the Board requiring that Bar Mutual's claims reserves (net of reinsurance) should normally be set at the 90th percentile of potential outcomes or higher. Of course, care has to be taken to ensure that Bar Mutual's claims reserves are not over-inflated as it could impact the premiums Bar Mutual charges, but the statutory auditors, Forvis Mazars, consider the claims reserves set by Bar Mutual every year and they consider the claims reserves set by Bar Mutual to be reasonable.

Secondly, Bar Mutual must hold capital in order to meet its regulatory capital requirement, the Solvency Capital Requirement ("SCR"). Bar Mutual's SCR was £28.2m at the year-end with qualifying regulatory capital held by Bar Mutual of £44.8m. Therefore, its Tier 1 capital exceeded its SCR by £16.6m, a solvency ratio of 159%. Bar Mutual enjoys an additional element of safety having obtained approval from the PRA to recognise as Tier 2 capital some of the amount available to it in deferred premium. Adding the Tier 2 capital improves Bar Mutual's solvency ratio to 197%.

CHAIR'S REPORT (continued)

Thirdly, the Board has an agreed policy requiring it to maintain a prudent level of Tier 1 capital in excess of the SCR. This gives a further layer of protection to try and ensure that, should Bar Mutual suffer a very bad claims year or a material reduction in the value of its investment holdings, it would still meet its SCR. This policy sets out a lower and upper target level of capital and at the year-end Bar Mutual's lower target for capital was £41m (so £13m above the SCR) and its upper target was £54m. With Tier 1 capital of £44.8m, Bar Mutual therefore exceeded its lower target for capital by £3.8m.

Underwriting

The introduction of a new IT system has provided the Board with an opportunity to update the formulae Bar Mutual uses for underwriting particular categories of Members, including , those joining Bar Mutual for the first time, those embarking on parental leave and retiring Members.

The Board has also decided to reduce the number of practice areas Bar Mutual rates at the next renewal by amalgamating some of the smaller practice areas into a larger practice area, Commercial and Financial Services. The rational for this is that (i) some of these smaller practice areas are effectively sub-categories of commercial work; and (ii) larger practice areas mean that there is greater stability in rating over the long term. Whilst members practicing in these smaller areas will see rate increases at the next renewal, the new approach avoids extreme rating changes caused by a large claim in a small practice area.

Bar Mutual's updated approach to rating its different categories of Members will be complete in time for the 2025 renewal. The Board is also reviewing Bar Mutual's practice of capping at £1.5m the income Bar Mutual has regard to when calculating its Members' premium.

Directors

The January 2024 Interim Report noted that one of Bar Mutual's Directors, Sharif Shivji KC would be retiring from the Board in early 2024 as his 12 year tenure on the Board had expired. I also took the opportunity to welcome to the Board Peter MacDonald Eggers KC, Anthony Pavlovich and Carleen Sobczyk. Each has already made a noticeable contribution to the work of the Committees they agreed to join. Unfortunately, Steven Snowden KC, who joined the Board in early 2022 has had to resign following his appointment as head of his chambers. In addition, Tom Coghlin KC will not be seeking re-election at the AGM in October. I will have more to say about Tom's contribution to Bar Mutual next year. On behalf of his fellow Directors and the Members as a whole we thank both Steven and Tom for their services as a member of the Board.

As part of the list of regulatory requirements the Board monitors the attendance of Directors at Board and Committee meetings. Given that Directors give up their time for no remuneration, it is appropriate to note that the commitment of the Directors to the operation of Bar Mutual is undimmed and the regular attendance rate at all meetings is over 90% of the Committee or Board members.

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. I also wish to thank our Managers for the outstanding quality of the service they continue to provide in running Bar Mutual.

Rebecca Sabben-Clare KC
Chair
11 July 2024