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Annual Report and Financial Statements Syndicate 2488



31 December 2019

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President's Report

I am pleased to report that 2019 was another successful year for Chubb Underwriting Agencies Limited (“CUAL”) and Syndicate 2488. The drive towards acceptable pricing of insurance risks intensified during the year and enabled Syndicate 2488 to maximise the opportunities afforded to it as a result of the improving market environment, with rate increases allowing business that had previously been inadequately priced to move into Chubb's appetite. The Lloyd's Decile 10 work is accelerating this improvement in pricing and market discipline, and we remain fully supportive of Lloyd's efforts in driving this forward.

Financial Performance

Syndicate 2488 underwrote £488.2 million of gross written premium in the year, an increase of over 10% on the £440.1 million recorded at year end 2018 and primarily driven by the improvement in market conditions referenced above. Additional revenue was also generated through the implementation of a number of specific broker initiatives which strengthened existing relationships with the global brokers and allowed us to expand the volume of business written with our other London Market focused broker partners. Net written premiums for the year increased in line with gross premiums, rising to £387.0 million from £350.8 million the previous year.

The syndicate reported underwriting profits of £24.2 million and an associated combined ratio of 93.6%. The results benefitted from prior period reserve releases of £4.6 million. Net catastrophe related losses, primarily relating to Hurricane Dorian and US winter storms amounted to £10.2 million and were commensurate with the syndicate's risk tolerances and expectations.

Net investment returns were £89.6 million, reflecting a strong investment performance and contributing to the profit for the year of £101.7 million.

New Appointments

In November 2019 we welcomed Jason Keen to CUAL as he took up his position as Division President, Chubb Global Markets. Jason's strong underwriting acumen, as demonstrated in his previous role as Chubb's Head of Property & Casualty for the Asia Pacific region and earlier appointments within the Lloyd's Market, align perfectly with Chubb Global Market's tradition of underwriting discipline and consistent results. Jason succeeded Matthew Shaw who is leaving the company, and I would like to take this opportunity to thank Matthew for his tenure with Chubb.

There have also been some other changes to the CUAL Board membership this year. Mark Hammond resigned from his position as an Executive Director following his appointment as Treasurer, Chubb Group in March 2019, and Kevin O'Shiel and Catherine Riley both resigned as non-Executive directors in April 2019. Mark, Kevin and Catherine have all made significant contributions to CUAL and I thank them for their outstanding stewardship of the company over the years. I was also delighted to welcome Chris O'Brien and Miriam Connole to the Board this year to help us maintain our position as one of the pre-eminent syndicates operating within Lloyd's today.

Looking Ahead

The London wholesale market saw improvements in pricing across a broad range of business classes in 2019, with more significant rate increases being adopted as the year progressed. Underwriting conditions remain robust in the majority of areas and there is little sign of any abatement in market resolve, indicating that the market will continue to harden further in 2020.

We acknowledge the incredible pace of change throughout the world as new technologies lead to more innovative and efficient ways of doing business, and the impact this change is having on the insurance industry. At Chubb we embrace entrepreneurship and utilise our specialist expertise and innovative thinking to create opportunities to empower our customers and clients. We are masters of our craft, building relationships with our clients and applying craftsman-like precision to create unique and tailored coverages which, combined with our passion for excellence in service, helps us to deliver the best insurance solutions for our clients.

We support Lloyd's proposals to transform itself into the most advanced insurance marketplace in the world through the initiatives detailed in “The Future at Lloyd's: Blueprint One” and believe that the six integrated solutions will help tackle the high operational costs and inefficiencies in the current operating model and drive sustainable, profitable growth in a modern and digitalised environment. Lloyd's Brussels is also fully open for business, providing the market with an effective solution to allow risks to

President's Report

continue to be underwritten following the UK's withdrawal from the European Union and delivering assurance to clients that underwriters will continue to pay all valid claims regardless of the result of the Brexit negotiations during the transition period.

D Furby
Regional President
5 March 2020

A handwritten signature in black ink, consisting of several overlapping loops and a long, sweeping tail that extends downwards and to the left.

Managing Agent's Report

The Board of Directors of the syndicate's managing agent, Chubb Underwriting Agencies Limited ("CUAL") are pleased to submit their report and the audited syndicate annual accounts for the year to 31 December 2019.

This report and accounts are prepared using the annual basis of accounting as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Lloyd's Regulations") as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the "Regulations"). In addition to this statutory requirement, the report also addresses other aspects of the syndicate's business which the Board believes will be of benefit to interested parties.

Ownership

Chubb Limited, the ultimate parent of CUAL, is the Swiss-incorporated holding company of the Chubb Group of Companies. Chubb Limited and its direct and indirect subsidiaries, collectively the Chubb Group of Companies ("Chubb") are a global insurance and reinsurance organisation. At 31 December 2019, Chubb Limited held total assets of \$176.9 billion and shareholders' equity of \$55.3 billion. It is listed on the New York Stock Exchange (NYSE: CB) and is a component of the S&P 500 index. The company maintains executive offices in Zurich, New York, London and other locations, and employs more than 30,000 people worldwide.

Brexit

CUAL fully supports Lloyd's commitment to the European market, including the processes being developed to ensure that all valid claims to EU policyholders with policies written prior to Brexit are paid. Lloyd's Brussels-based European insurance company provides the market with an effective solution to allow business to continue without interruption regardless of the outcome of Brexit transition period negotiations. CUAL has already transitioned to its post-Brexit operating model so it can continue to trade with confidence.

Business Overview

Chubb is the world's largest publicly traded property and casualty insurer. With operations in 54 countries and territories, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients.

Chubb is defined by its extensive product and service offerings, broad distribution capabilities, exceptional financial strength and local operations globally. The company serves multinational corporations, mid-size and small businesses with property and casualty insurance and risk engineering services; affluent and high net worth individuals with substantial assets to protect; individuals purchasing life, personal accident, supplemental health, homeowners, automobile and specialty personal insurance coverage; companies and affinity groups providing or offering accident and health insurance programs and life insurance to their employees or members; and insurers managing exposures with reinsurance coverage. Chubb's core operating insurance companies maintain financial strength ratings of "AA" from Standard & Poor's and "A++" from A.M. Best.

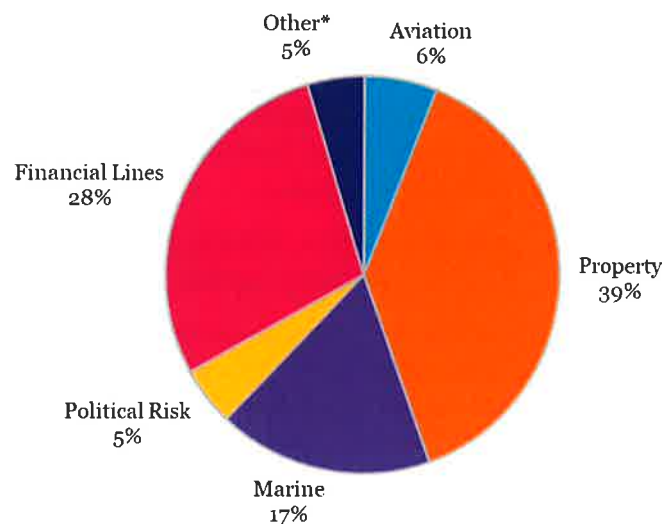
Syndicate 2488 is a strategically important business within Chubb, allowing the group to access specialist Lloyd's and London market risks. The syndicate offers its clients a broad range of insurance and risk solutions, with policies primarily written under the name "Chubb Global Markets" which capitalises on the distinctiveness and strength of the Chubb brand and acknowledge the group's strong insurance platforms, reputation, skill sets and consistent management philosophy.

The structure of the syndicate's operations allows the underwriters formal and informal interaction with their Chubb underwriting peers across the world. With longstanding client relationships and multi-line global platforms, Syndicate 2488 enjoys a position as a lead insurer in the key lines in which it chooses to compete, with a significant presence in the Lloyd's market.

Chubb Global Markets ("CGM") underwriting products are offered principally through Syndicate 2488 and Chubb European Group SE ("CEG"), a French domiciled company which offers a wide range of property, casualty and accident and health insurance and reinsurance products to both retail and wholesale markets. Business may also be written through a number of overseas Chubb companies. Factors influencing the decision to place business with the syndicate, CEG or an overseas company include licensing eligibilities and capitalisation requirements, but predominantly reflect client and broker preference.

Managing Agent's Report

Syndicate 2488 underwrites a diverse portfolio of business organised into product lines including aviation, property, marine, political risk and financial lines. The 2019 split of gross written premiums by major product line is illustrated below:



* Other includes energy, international casualty, environmental liability, terrorism and other non-core lines

Syndicate 2488 benefits from comprehensive and fully integrated support functions encompassing claims, finance and actuarial, risk management, legal and compliance, human resources, operations and IT.

With effect from 1 January 2019, Syndicate 2488 accepted the reinsurance to close of the liabilities of Syndicate 1882. Syndicate 1882 was also managed by CUAL and had been in run-off since 31 December 2016. The 2016 year of account was its last year of account. The transaction resulted in the transfer to Syndicate 2488 of gross and net technical provisions of £150.2 million and £135.0 million, respectively.

Business Objectives & Strategy

CUAL has market-leading risk expertise, a disciplined approach to underwriting and is fully committed to meeting the insurance needs of its clients. It is distinguished by its ability to manage the challenging and constantly changing external environment, the clarity of its strategy and the thoroughness of its execution.

CUAL's strategy focuses on an established underwriting ethos that permeates the business. Top line growth is not the primary driver for the syndicate and underwriters are fully prepared to shed volume as necessary in order to maintain an underwriting profit. Using CUAL's underwriting skills and targeted marketing strategies, the syndicate aims to generate growth in areas where risk-adjusted underwriting margins are favourable, and achieve better terms or shrink business where they are not.

The syndicate's product line segmental structure enables underwriters to manage each business class at a detailed level, essential for the identification and analysis of the characteristics, challenges and opportunities of each class. Rating adequacy, competition, volatility and margins are analysed at a micro level by the underwriting teams with significant input from CUAL's actuaries and management team.

CUAL strives to offer superior service levels in all aspects of the syndicate's operations, particularly claims, and it continues to invest in technology to improve its operational efficiency, underwriter support and broker interfaces.

CUAL is committed to protecting and preserving its assets. It operates a conservative investment strategy and has maintained its focus on cash flow management and liquidity to secure its long term position in the Lloyd's insurance market.

Managing Agent's Report

Investment Strategy

Syndicate 2488 operates a conservative investment strategy by establishing highly liquid, diversified, high quality portfolios managed by expert external managers. Detailed Chubb Group investment guidelines are established for each managed portfolio including Chubb customised benchmarks against which manager performance is measured.

Syndicate 2488 maintains six active investment grade fixed income portfolios, held in US dollars, sterling, Canadian dollars and euro. In addition, the syndicate maintains a US dollar investment grade portfolio, an actively managed US dollar high yield portfolio and a private equity fund in respect of the Funds in Syndicate. The focus of the high yield portfolio is upper tier high yield fixed income securities targeting average Moody's quality of "B" or higher.

The approximate currency split of the syndicate investment portfolios, including Funds in Syndicate, is US dollars 71.6%, euros 11.4%, Canadian dollars 10.0% and sterling 7.0%. Syndicate 2488 held no equities in 2019.

No significant changes to the investment strategy were made in the year and the syndicate continued to maintain diversified actively managed portfolios with exposure to a broad range of sectors. In the fourth quarter the asset allocation policy was changed, to allow up to 30% of the portfolio in alternative assets, comprising equities, high yield, illiquid loans and emerging market debt. Prior to this change only 20% of the portfolio could be held in alternative assets. The remainder of the portfolio is held in investment grade fixed income securities.

Presentation of Financial Statements

The basis of preparation of Syndicate 2488's annual financial statements is in accordance with the 2008 Lloyd's Regulations, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, and applicable accounting standards in the United Kingdom. These financial statements recognise a calendar year profit or loss, driven by net earned premium and net incurred losses arising on that net earned premium.

Managing agents are required to prepare syndicate underwriting accounts, similar to those previously prepared on a three year underwriting basis in respect of any year of account which is being closed by reinsurance to close, unless all the members on the closing year agree otherwise. Syndicate 2488 is a fully aligned syndicate, with 100% of the underwriting capital provided by one corporate capital vehicle, Chubb Capital 1 Limited. Chubb Capital 1 Limited has agreed to waive its right to receive syndicate underwriting accounts in respect of Syndicate 2488's closed 2017 year of account and, as such, no information on this basis has been provided within this report and annual accounts.

Key Performance Indicators

The following financial key performance indicators ("KPIs") have been deemed relevant to the syndicate business. These KPIs are reviewed regularly by the CUAL Board.

£ million	2019	2018
Gross premiums written	488.2	440.1
Net premiums written	387.0	350.8
Combined ratio % *	93.6%	90.3%
Profit for financial year	101.7	34.1

* Ratio of net claims incurred, commission and expenses to net premiums earned, excluding profit / loss on exchange

Management also uses a variety of other performance indicators, including production volumes, retention ratios, price monitoring, loss and expense analyses, and operating metrics in assessing the performance of each of the product lines. All financial results are monitored against plan, forecast and prior year on a regular basis.

CUAL seeks to manage syndicate capacity levels in order to make the most effective use of available capital. The 2020 capacity of Syndicate 2488 has been set at £480.0 million (2019: £405.0 million).

Managing Agent's Report

Results & Performance

Syndicate 2488's business is principally conducted in US dollars however, for accounting purposes, the financial results are presented in sterling. Syndicate 2488's functional currency is US dollars. Fluctuations in exchange rates during the year can therefore impact the comparability of the profit and loss statement for the current year with the prior year. For example, approximately 7% of the overall 11% increase in gross written premiums is due to foreign exchange rate movements.

Syndicate 2488 produced a profit for the 2019 financial year of £101.7 million and a combined ratio of 93.6%. A summary of the reported financial results is shown below.

£ million	2019	2018
Gross premiums written	488.2	440.1
Net premiums written	387.0	350.8
Net premiums earned	378.8	361.6
Incurred losses	218.5	188.8
Operating expenses	136.1	137.9
Underwriting profit / (loss)	24.2	34.9
(Loss)/profit on exchange	(12.1)	(3.7)
Investment return	89.6	2.8
Profit for financial year	101.7	34.1
Combined ratio %	93.6%	90.3%

Rating Environment

The more positive rating environment that began to emerge during 2018 continued through 2019. Overall pricing on CGM renewal business for the full year was up in the high-single digits, with several product lines, notably Aviation and Marine, achieving double digit rate rises.

Drivers of Underwriting Result

In 2019 the syndicate's reported profit benefited from a prior period reserve release of £4.6 million compared to a release of £21.0 million in 2018. If the prior period reserve releases are excluded from the results, the syndicate delivered a profit of £19.6 million in 2019, £5.7 million more than the previous year.

Gross written premiums were £48.1 million above those reported in 2018, with the increase driven by the hardening insurance market and increased underwriting opportunities, particularly in property classes, together with the strengthening of sterling against the US dollar as referenced above.

Global catastrophes are estimated to have caused \$56 billion of insured losses in 2019 (Source: Swiss Re sigma) largely relating to damage emanating from Hurricane Dorian and typhoons in Japan, but also from severe secondary perils including wildfires and flooding in many regions of the world. Syndicate 2488's exposure to large losses is managed by adherence to clear risk management and underwriting guidelines and the use of reinsurance protection and sophisticated modelling and analysis. Syndicate 2488's catastrophe losses net of reinsurance recoveries during 2019 amounted to £10.2 million (2018: £18.0 million).

The syndicate purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses and seeks to limit its loss exposures by purchasing reinsurance up to its maximum line sizes and accumulations. The principal reinsurance programmes operated by the syndicate during the year were partly shared with other Chubb companies including CEG SE. There were no major changes to the syndicate's reinsurance purchasing strategy in 2019.

Managing Agent's Report

Operating expenses constitute acquisition costs, Lloyd's subscriptions, Central Fund contributions and general administrative expenses. CUAL continues to focus on the management of each of these components in line with the growth and needs of the business.

Financial Markets Review

Low volatility returned in 2019 as both bonds and equities rallied on the back of reduced trade war tensions between the US and China and a more accommodative stance by global central banks, including the European Central Bank ("ECB"), the Bank of Japan, and the Federal Reserve ("the Fed").

In the first quarter, amid decelerating growth momentum, global central banks shifted toward more accommodative stances. The ECB's rhetoric became more dovish, the Bank of Japan suggested additional easing measures, and the Fed shifted to a lower outlook for rate hikes and signaled an end to its balance sheet unwind. This stance plus increased optimism over trade negotiations pushed yields lower and spurred a rally in risk assets.

Despite rising uncertainty for global growth in the second quarter, markets continued to perform strongly, spurred once again by more supportive stances from global central banks. Business sentiment indicators were declining, shifting in some cases to contractionary levels. Meanwhile, expectations for rate cuts increased. Intra-quarter, volatility picked up as trade tensions increased. But this was short-lived as the rally in risk assets continued and sovereign yields continued to decline.

Continuing along the same themes of the first and second quarters, yields fell and spread sectors tightened. However, increased trade tensions and growth concerns meant risk assets rallied less than they had in prior quarters. The Fed and the ECB lowered policy rates against this more uncertain backdrop, with the ECB also announcing a resumption of its quantitative easing program.

In the fourth quarter, recession risks and volatility decreased, a sharp contrast to a year before, as sentiment indicators appeared to turn, showing early signs of a recovery in global growth. Investment grade bond yields rose amid positive news concerning trade negotiations between the US and China, bolstering investor sentiment.

Investment Performance

Investment markets performed strongly in 2019 and with volatility decreasing, all asset classes held by Syndicate 2488 generated strong total returns. Fixed income returns were generally good in 2019 as both sovereign and corporate yields fell. Returns for high yield bonds exceeded investment grade mandates as spreads narrowed. Equities and illiquid loans also produced strong returns during the year.

Overall Syndicate 2488 generated a total return of 5.7% in 2019 on balances available for investment. For investment grade portfolios, total returns of 4.5%, 4.4% and 4.7% were generated for sterling, euro and Canadian dollar portfolios respectively. The US dollar investment grade portfolios which comprise over 75% of the investment grade bonds generated a total return of 5.0% in the year.

Syndicate 2488's alternative investment assets, constituting around 18% of the total portfolio are comprised of US dollar upper tier high yield bonds and the Oakhill private equity fund. The high yield portfolio generated strong returns of 15% and the Oakhill fund 7.7% for the year.

Cash Flow

Total syndicate cash flow derived from operating activities in the year was positive. The distribution of the 2016 year of account profits was made in 2019.

Financial Position

Capital

Syndicate capital requirements are determined through the submission and agreement by Lloyd's of a Solvency Capital Requirement ("SCR") adjusted by Lloyd's through the application of a market wide uplift of 35%, which is referred to as the Lloyd's Economic Capital Requirement.

Managing Agent's Report

The Prudential Regulation Authority ("PRA") conducts reviews directly with Lloyd's on the overall SCR for the Lloyd's Market rather than at a syndicate level. Under the governance processes surrounding the Lloyd's internal model, the syndicate is obligated to ensure compliance with Lloyd's requirements for the internal model tests and standards, and processes are in place to meet these obligations.

In order to determine the SCR the syndicate assesses its risk profile and capital requirements using an internal model which has been developed to meet Solvency II requirements. The internal model is supported by a robust validation and governance framework which ensures its ongoing appropriateness and is refined to reflect the syndicate's experience, changes in the risk profile and advances in modelling methodologies. For 2020, the SCR shows a slight decrease compared with the 2019 requirement.

The syndicate maintained capital throughout 2019 in line with the Lloyd's Economic Capital Requirement.

Syndicate 2488 meets its Funds at Lloyd's ("FAL") requirement by the provision of investments held within the syndicate which are designated as Funds in Syndicate. The overall quantum of FAL for 2019 year end decreased to £619 million (2018: £677 million).

Ratings

All active syndicates benefit from the financial strength ratings assigned to the Lloyd's market by various rating agencies. Lloyd's currently holds financial strength ratings of "A (Excellent)" from A.M. Best, "A+ (Strong)" from Standard & Poor's and "AA- (Very Strong)" from Fitch. In view of these robust ratings, together with Chubb's core operating insurance companies ratings of "A++" and "AA" from A.M. Best and Standard & Poor's respectively, it has not been considered necessary to obtain an individual rating for the syndicate.

Governance

CUAL has a documented corporate governance framework, the purpose of which is to exercise oversight and control over the management of its own and the syndicate's business.

The Board of Directors ("the Board") has reserved responsibility for decisions in connection with a number of matters, including those of a significant strategic, structural, capital, financial reporting, internal control, risk, contractual, policy or compliance nature. The Board meets at least four times a year and additionally on other occasions to discharge its responsibilities in respect of these and other matters. In 2019 the Board met nine times.

Membership of the Board is kept under review to ensure that the composition and available expertise remains relevant to the current needs of the syndicate. The Board comprises two independent non-executive directors, two non-executive regional Chubb representatives and two executive directors. During 2019 two independent non-executive directors and one executive director left the Board and one non-executive regional representative and one executive director were appointed. CUAL greatly values the contribution of its non-executive directors in providing contrasting insights, experience and challenge in the Board's discussions and the insights of the regional Chubb representatives into the wider Chubb Group. Details of director appointments and resignations can be found on page 16.

Key non-routine Board activity during the year included: i) major model changes to the Internal Model, ii) review of the appropriateness of the revised governance arrangements implemented from 1 January 2019 as part of Chubb's Brexit planning, and iii) the impact of the Lloyd's Decile 10 review on the market, rates and the Syndicate Business Forecast. It also approved the reinsurance to close to transfer Syndicate 1882 into Syndicate 2488 and changes to the Internal Model Governance Framework and associated documentation.

The Board received regular reports on the status of business results, business and function plans, resourcing, developments in the risk and regulatory environments, regulatory compliance, underwriting controls, actuarial and solvency matters.

The Board has delegated a number of matters to committees. Each of the following committees has formal terms of reference and matters reserved to it. Each, with the exception of the CUAL Management Committee, includes non-executive directors in its membership, and reports to the Board regularly in respect of its remit.

Managing Agent's Report

As part of the changes to governance for Chubb's planning for Brexit during 2018, the Audit Committee and Risk Committee were combined to become an Audit & Risk Committee (the "Committee") from 1 January 2019. The responsibilities of these individual committees were combined and included in the terms of reference of the Committee. Also as part of the Brexit planning in 2018 it was agreed that the Nomination Committee would be disbanded and the responsibilities were incorporated into the terms of reference of the Board with effect from 1 January 2019.

The Committee, which was comprised exclusively of non-executive directors, considered and made recommendations to the Board on areas including validation of solvency calculations, internal controls, financial reporting, whistleblowing, actuarial matters and the external audit. In addition it oversaw and advised the Board on risk exposures, future risk strategy, the design and implementation of the risk management framework into the business and on solvency and capital matters. It also ensured that business risks and controls were recorded and monitored.

The Committee received reports from the compliance, conduct, actuarial and finance functions on a quarterly basis. Other regular reporting included updates on the syndicate's "Own Risk and Solvency Assessment" metrics, which helps to provide an independent overview of management's assessment of risk, including performance against Board approved risk appetites. It also reviewed the work supporting compliance with the Lloyd's Minimum Standards and completion of CUAL's Lloyd's returns and other regulatory requirements.

In relation to the external audit process, the Committee monitored the nature and scope of work in the audit of the financial statements and other external reporting requirements. The Committee received regular reports from the External Auditor and the independent non-executive directors met regularly with the External Auditor without management being present.

In the case of the internal audit function, the Committee's role involved agreeing and monitoring, in conjunction with the group audit function, the nature and scope of work to be carried out by the internal audit team and the availability of sufficient resources. The Committee received regular reports from the Internal Auditor and the independent non-executive directors met regularly with the Head of Internal Audit without management being present.

The Committee's role was aimed at providing assurance to the Board and Chubb group management that the internal control systems, agreed by executive management as being appropriate for the prudent management of the business, were operating as designed. At all times the Committee members were expected to challenge any aspect of these processes which it considered weak or generally poor practice.

During 2019 the Committee in particular reviewed: i) the results of the external quality assessment of the internal audit function, ii) CUAL's response to the regulatory information requests, for example the FCA's market study on pricing practices and the PRA's information request around effectiveness of remuneration rules and the Senior Manager's Regime, and iii) it approved a Third Party Relationship Management Framework to oversee outsourced arrangements. Other areas of focus were the Independent Peer Review Process, the increasingly complex requirements around Sanctions.

The CUAL Management Committee comprises executive directors and other members of the senior management team. The primary role of the Management Meeting is to oversee the day-to-day management of business operations and performance, and to assist the Chief Executive Officer in implementing and overseeing operational strategies and decisions determined by the Board. The CUAL Management Committee oversees the support function activities, key steering groups and specialist sub-committees. The structure and composition of the CUAL Management Committee was updated to reflect the changes to the governance arrangements agreed in 2018 which were effective from 1 January 2019.

The specialist sub-committees include: the finance, capital & credit; reserve; underwriting controls; investment; and internal model steering committees. These report to the CUAL Management Committee to ensure that various aspects of the business are reviewed by a wide senior management group. In late 2019 the remit of the underwriting controls committee was expanded to include product oversight and the status of the IT working group was amended to the IT steering committee. These changes became effective from 1 January 2020 and ensure that the CUAL Management Committee has clear sight of customer and IT issues and that these can be escalated to the Audit & Risk Committee and Board as necessary.

CUAL has a Routine Business Committee which meets on an ad hoc basis between formal Board meetings to consider authorisation of routine activity and its activities are reported at the subsequent Board meeting.

Managing Agent's Report

Risk & Control Framework

The Chubb Group is a global underwriting franchise whose risk management obligation to stakeholders is simple: ensure sufficient financial strength over the long term in order to pay policyholder claims while simultaneously building and sustaining shareholder value.

The Chubb Enterprise Risk Management (“ERM”) strategy helps achieve the goal of building shareholder value by systematically identifying, and then monitoring and managing, the various risks to the achievement of corporate business objectives and thereby minimising potential disruptions that could otherwise diminish shareholder value or balance sheet strength.

CUAL has adopted the Chubb Group Enterprise Risk Management Framework (“RMF”), which describes the role of ERM within CUAL and how it helps the syndicate achieve its business objectives, meet its corporate obligations and maintain the reputation of the Chubb franchise. Chubb’s documented RMF is principles-based and sets out the organisational framework for risk taking, monitoring and governance.

The RMF adopts a “three lines of defence” model, comprising day-to-day risk management and controls, risk management oversight, and independent assurance.

The RMF identifies the key risks to which each business segment, and the syndicate as a whole, is exposed, and their resultant impact on economic and regulatory capital. This framework employs Solvency II principles to assess risk and manage capital requirements to ensure the capital required to support CUAL’s business objectives and to meet the requirements of policyholders and regulators.

The Board is ultimately responsible for ensuring that the syndicate operates within an established framework of effective systems of internal control, including the approval of the overall risk tolerance for the organisation and compliance with policies, procedures, internal controls and regulatory requirements.

The Board’s oversight of the RMF is effected through the various committees and functions with particular purposes and direction around the monitoring of risk tolerances and oversight of internal controls and compliance procedures. The risk management function has a strong mandate from the Board to promote the RMF and embed it across the syndicate.

The RMF was re-approved by the Board in 2019 together with a review of individual risk policies and risk appetite statements which set out defined risk-tolerance constraints for the execution of the business strategy. All key policies and procedures are subject to Board approval and ongoing review by executive management, the risk management function and internal audit function.

Disclosures regarding risks and capital management are provided in note 3 to the financial statements.

Compliance

Compliance with regulation, legal and ethical standards is a high priority for Chubb and CUAL, and the compliance function has an important oversight role in this regard. Annual affirmation of the Chubb Code of Conduct is required of all employees and directors.

As a material subsidiary of Chubb Limited, a US listed company, the financial control environment in which the US GAAP financial statements are derived is subject to the requirements of US Sarbanes-Oxley legislation. CUAL has formalised documentation and tested controls to enable Chubb Limited to fulfil the requirements of the legislation.

CUAL is also committed to fulfilling its other compliance-related duties, including its observance of customer-focused policies, in line with regulatory principles, and it uses various metrics to assess its performance.

The managing agency utilises a skilled and specialist workforce employed by Chubb Services UK Limited, to manage its regulatory and compliance responsibilities and aims to operate to a high standard. CUAL recognises and values its relationships with regulators in each of its jurisdictions and engages in open dialogue and communication to address and resolve any issues.

Managing Agent's Report

Social and Employee Matters

The Chubb Code of Conduct

The Chubb Code of Conduct affirms Chubb's commitment to compliance with equal employment opportunity laws and other applicable civil rights, human rights and labour laws. Chubb expects staff to behave ethically and transparently and to be accountable for their actions. All employees, officers and directors are expected to acknowledge acceptance of this code confirming that they know and understand the standards expected. Chubb expects its business partners such as consultants, agents, third party representatives and service providers to also comply with the code. Appropriate measures may be taken if they fail to meet those standards or contractual obligations.

Human Rights

The Chubb Code of Conduct affirms our commitment to compliance with equal employment opportunity laws and other applicable civil rights, human rights and labour laws. Chubb expects staff to behave ethically and transparently and to be accountable for their actions. Chubb policies, frameworks and actions aim to prevent modern slavery and human trafficking in both the business and its supply lines by:

- Undertaking employment verification checks as part of the hiring process where allowed by local legislation;
- Requiring agencies who supply workers to carry out employment verification checks, wherever staff are located where allowed by local legislation;
- Procurement questionnaires require third party suppliers to state what steps they take to comply with applicable anti-slavery legislation;
- Procurement agreements require third party suppliers to comply with applicable laws and regulations and permit Chubb to terminate relationships where they fail to do so;
- Subjecting key business transactions to both on boarding and periodic regulatory screening;
- Providing regular training for staff on sanctions restrictions, anti-bribery, anti-money laundering, and the Chubb Code of Conduct to which they must attest;
- Providing training and support for all staff on how and where they can raise concerns about wrongdoing and assurances that they will not suffer reprisals for doing so; and
- Taking appropriate action where potential violations of the Modern Slavery Act 2015 are identified.

Chubb continues to update its policies, procedures and training materials to make its commitment to anti-slavery and human trafficking explicit to customers, employees, suppliers, and business partners. Over the course of the last year, Chubb has revised its EU Procurement Policy focuses on and re-iterates third parties' obligations to comply with modern slavery and human trafficking laws. Furthermore, Chubb's General Data Protection Regulations communications include reference to our continued expectation that third party vendors must abide by modern slavery and human trafficking legislation.

Chubb's Modern Slavery and Human Trafficking Transparency statement has been published on the company's website.

Diversity & Inclusion Approach

Chubb is committed to a diverse and inclusive environment where all staff are treated with dignity, fairness and respect, regardless of their age, disability, race, religion or belief, gender identity and expression, sexual orientation, marital status or family circumstances.

The Chubb approach is based on three key principles:

1. **Inclusion:** creating a working culture and environment where we value the whole person and the experiences they bring to work, where everyone has the opportunity to achieve their full potential and develop in a way that is consistent with our vision and values. Our aim is to be an organisation where people feel valued, involved, respected, supported and connected to the success of the business;
2. **Equality:** promoting equality by removing barriers, eliminating discrimination and ensuring equal and fair opportunity and access for all; and

Managing Agent's Report

3. **Diversity:** accepting each person as an individual and respecting and appreciating differences in ethnicity, gender identity and expression, age, national origin, disability, sexual orientation, education and religion and the value that these differences bring to the workplace every day.

In creating a diverse and inclusive environment Chubb aims to:

- ensure that all job applicants are treated fairly and judged on criteria relevant to a vacant position;
- ensure that all employees are treated in a fair manner which allows each individual to reach their full potential;
- ensure that decisions on recruitment, selection, training, promotion, career opportunities and management, all aspects of employment including terms and conditions are based solely on fair and objective and job-related criteria;
- provide Chubb with a workforce of the highest ability which reflects the community in which we conduct business;
- create an environment in which individual differences and the contributions of all team members are recognised, valued and respected; and
- ensure the leadership team and all managers and HR Business Partners actively promote equal opportunities as well as diversity and inclusion within Chubb.

Chubb's regional Diversity & Inclusion ("D&I") Council of senior representatives across Europe, Eurasia and Africa is responsible for developing and supporting the implementation of Chubb's D&I strategy, taking into account the varied requirements and needs of the region.

With the support of the executive team, Chubb has launched a number of employee-led internal networks to provide opportunities for networking, education and development of business capabilities for all employees. These include the Gender Equality Network, the Parents and Carers Network and the Cultural Awareness Network.

In addition to a number of internal employee networks, Chubb is also a founding member of the cross-market Gender Inclusion Network for Insurance, connecting a number of organisations across the insurance market in the UK and Ireland to work towards the common goal of establishing greater gender balance at all levels. Chubb is also a Stonewall Diversity Champion, an Out and Equal Workplace Advocate and a Working Families Employer Member. Additionally, Chubb has been a gold sponsor of the global Dive In Festival for several years, showcasing D&I in Insurance.

Chubb supports a wide range of activities that benefit the community through the Chubb International Foundation and the Chubb Community Support Committee, predominantly in the areas of education, poverty, health and the environment. Chubb has supported more than 70 charities or good causes in Europe in 2019 with employees participating in a number of local voluntary community schemes and personal fundraising efforts which the Company supports through a charity-matching scheme. In 2019 Chubb contributed £0.2 million to various charities across the UK and Europe.

Talent Strategy

Chubb's ability to deliver outstanding business results relies on the calibre of its talent and the efforts of its employees at all levels of the organisation. Chubb aims to build and develop a mid and long-term talent pipeline to ensure the right quality and quantity of diverse talent is available for the company to deliver its key business objectives.

To this end, Chubb has a talent strategy that actively supports the personal and professional development of all its people. Chubb strives to attract, retain and develop employees to meet their career aspirations. A core element of Chubb's employee value proposition is the opportunity to constantly evolve as a professional and reach one's full potential. It endeavours to identify talent on a regular basis and provide high quality development programmes that build the necessary leadership qualities for now and the future. Succession plans are in place at the senior level.

Chubb expects all employees to own and drive their development by availing themselves of the structured and unstructured learning on offer. In turn, Chubb will help those employees who are motivated to develop and grow by providing the critical experiences, resources, tools and opportunities to succeed in their career. Chubb internally sources talent to fill open positions where appropriate.

Managing Agent's Report

Environmental Matters

Chubb recognises its responsibility to provide solutions that help clients manage environmental risks, to reduce its own environmental impact and to make meaningful contributions to environmental causes.

Chubb is among the world's largest global underwriters of environmental liabilities and pollution risks. Chubb's solutions include coverages for premise-based exposures, contractors' and project pollution liability, environmental cleanup projects, as well as "green building" consulting services and a property policy that enables greener rebuilding after a loss. In addition, Chubb provides incentives and discounts to certain property customers for environmentally friendly behaviors. Chubb is also a leader in meeting the insurance and risk engineering needs of clean technology companies, including renewable and alternative energy providers, manufacturers and software and hardware companies.

On 1 July, 2019 Chubb Limited announced that it had adopted a new policy concerning coal-related underwriting and investment, the key elements of which are:

- *New coal plant construction and operation:* Chubb will not underwrite risks related to the construction and operation of new coal-fired plants. Exceptions to this policy will be considered until 2022 (i) in regions that do not have practical near-term alternative energy sources, and (ii) taking into account the insured's commitments to reduce coal dependence.
- *Coal mining:* Chubb will not underwrite new risks for companies that generate more than 30% percent of revenues from thermal coal mining. Chubb will phase out coverage of existing risks that exceed this threshold by 2022.
- *Utilities:* Chubb will not underwrite new risks for companies that generate more than 30% of their energy production from coal. Chubb will phase out coverage of existing risks that exceed this threshold beginning in 2022, taking into account the viability of alternative energy sources in the impacted region.
- *Investments:* Chubb will not make new debt or equity investments in companies that generate more than 30% of revenues from thermal coal mining or that generate more than 30% of energy production from coal.

As an insurance company Chubb's emissions produce a modest climate footprint, however Chubb is committed to managing and reducing greenhouse gas emissions throughout its operations. In 2019, Chubb Group pledged to reduce its emissions substantially: 20% by 2025 and 40% by 2035 through real estate optimization, energy efficiency projects and the purchasing of renewable electricity. Achieving these goals will be accomplished through a combination of real estate portfolio optimization, energy efficiency projects and the purchase of renewable electricity. Chubb has worked to make reductions within its global operations, with a focus on reducing energy consumption at the facility level, primarily in owned buildings and larger, long-term leased spaces. This includes efforts to reduce the direct and indirect greenhouse gas emissions generated from heating, cooling and lighting in offices and from company owned or leased vehicles, as well as the reduction, reuse or recycling of resources.

Chubb's commitment to the disclosure of environmental actions and philanthropic activities reduces the reputational risk relating to its environmental practices. Chubb produces an annual Environmental Report which outlines the full scope of the group's environmental programme and initiatives. It reports to the CDP on an annual basis disclosing climate change risks and opportunities as well as emissions performance. A third-party certified environmental statement on the company's greenhouse gas emissions program is also included in the Chubb Limited annual report.

Chubb is a proud member of ClimateWise, an independent network of insurers, reinsurers, brokers and insurance industry service providers facilitated by the University of Cambridge Institute for Sustainability Leadership. Chubb discloses its global actions to ClimateWise annually based on the ClimateWise principles of direct consumption. This independent review enables Chubb to assess its influence on those it interacts with, from brokers and clients to government agencies and regulators; whilst also comparing its actions against other leaders in the industry.

Guarding against Financial Crime

Chubb recognises the importance of the effective management of financial crime risk in terms of its obligations to its customers, the expectations of its regulators and long term financial stability. The management of financial crime risk is fully integrated into Chubb's wider Risk Management Framework and the Financial Crime Framework is comprised of board policies and procedures and sets out the company's approach to the management of financial crime risk and is underpinned by the Chubb Code of Conduct.

Managing Agent's Report

Financial crime policies and explanatory guidance notes relating to financial crime are in place and are appropriately detailed and take into account the nature and complexity of Chubb's activities. All business lines are required to implement appropriate risk based procedures and controls at each stage of the insurance transaction to mitigate financial crime risk exposure and to ensure compliance with the agreed standards.

Detailed and regular financial crime reports are provided that enable Chubb's Senior Management and Risk Committee to understand the financial crime risks to which Chubb is exposed. This enables Chubb to manage financial crime risk in accordance with Chubb's risk appetite and to ensure that controls operate effectively.

Financial crime training is provided for all new starters and risk based training, tailored to specific roles is provided regularly thereafter. Chubb's training has a strong practical dimension, including case studies and knowledge testing. Training material is reviewed periodically to ensure consistency and effectiveness and is updated when required to ensure that it is relevant and up to date.

Directors

The following have been directors of the managing agent from 1 January 2019 to the date of this report unless otherwise indicated:

Executive directors:

M K Hammond (resigned 30/4/2019)

C P J O'Brien (appointed 14/5/2019)

A M W Shaw (Chief Executive Officer and Active Underwriter)

Non-executive directors:

A Turner (Chair)

M A Connole (appointed 01/01/2019)

D M A Furby

K N O'Shiel (resigned 30/04/2019)

C E Riley (resigned 30/04/2019)

T C Wade

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) are in place for the benefit of the directors and, at the date of this report, are in force in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

The managing agent also has the benefit of a group insurance company management activities policy effected by Chubb Limited (CUAL's ultimate holding company). No charge was made to CUAL during the year for this policy.

Directors' Participations

None of the directors participates on the syndicate on a bespoke basis. Certain directors participate indirectly on the syndicate by virtue of their interests in the stock of Chubb Limited.

Statement of Managing Agent's Responsibilities

The managing agent is required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the "Regulations"), to prepare syndicate annual accounts for Syndicate 2488 for each financial year which give a true and fair view of the state of affairs of the syndicate and of its profit or loss for that year.

In preparing these syndicate annual accounts the managing agent is required to:

- i) select suitable accounting policies which are applied consistently with the exception of changes arising on the adoption of new accounting standards in the year;
- ii) make judgements and estimates that are reasonable and prudent;

Managing Agent's Report

- iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- iv) prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The directors of the managing agent confirm that they have complied with the above requirements in preparing the syndicate annual accounts.

The managing agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. The managing agent is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to Disclosure of Information to Auditors

Each of the persons who is a director of the managing agent at the date of this report confirms that:

- i) So far as he/she is aware, there is no information relevant to the audit of the syndicate's annual accounts for the year ended 31 December 2019 of which the auditors are unaware; and
- ii) The director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

Independent Auditors

The 2008 Lloyd's Regulations, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the "Regulations") require that the auditors of the syndicate annual accounts be appointed by the members of the syndicate, initially for the syndicate annual accounts for the 2009 year end after which provisions for deemed reappointment of auditors will apply. PricewaterhouseCoopers LLP is deemed to have been reappointed as the auditors of the syndicate annual accounts for the 2019 year end.

On 10th December 2001, Lloyd's granted consent to PricewaterhouseCoopers LLP continuing to act as syndicate auditors for Syndicate 2488 (for the 2002 and previous years of account) and as corporate auditors for CUAL and other Chubb group companies (for the 2002 financial year). This consent was, in effect, an extension of the consent granted previously in relation to the 2001 and prior years of account and has been further extended without time limit.

Approved by the Board and signed on its behalf



C P J O'Brien

Director

5 March 2020

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2488

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 2488's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Members' Balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the Managing Agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the

Independent Auditors' Report

syndicate annual accounts or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Managing Agent's Report, we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2019 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on pages 16 and 17, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate'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 it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 syndicate annual accounts.

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's member in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.



Robert Cordock (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2020

Income Statement for the year ended 31 December 2019

		2019	2018
Technical account – general business	Notes	£000	£000
Earned premiums, net of reinsurance			
Gross premiums written	4	488,175	440,091
Outwards reinsurance premiums		(101,176)	(89,301)
Net premiums written		386,999	350,790
Change in the gross provision for unearned premiums		(7,167)	15,552
Change in the provision for unearned premiums, reinsurers' share		(1,063)	(4,734)
Change in unearned premiums, net of reinsurance		(8,230)	10,818
Earned premiums, net of reinsurance		378,769	361,608
Allocated investment return transferred from the non-technical account	8	40,531	4,177
Total technical income		419,300	365,785
Claims incurred, net of reinsurance			
Claims paid, gross amount	4	(352,383)	(273,618)
Claims paid, reinsurers' share		83,766	63,068
Net claims paid		(268,617)	(210,550)
Change in the provision for claims, gross amount	4	83,530	73,107
Change in the provision for claims, reinsurers' share		(33,430)	(51,317)
Change in the provision for claims, net of reinsurance		50,100	21,790
Claims incurred, net of reinsurance		(218,517)	(188,760)
Net operating expenses	6	(136,052)	(137,915)
Total technical charges		(354,569)	(326,675)
Balance on the general business technical account		64,731	39,110

The notes on pages 27 to 50 form an integral part of these financial statements.

Income Statement for the year ended 31 December 2019

Non-technical account	Notes	2019	2018
		£000	£000
Balance on the general business technical account		64,731	39,110
Investment return			
Investment income	8	56,444	44,592
Unrealised gains on investments	8	71,710	47,364
Investment expenses and charges	8	(9,859)	(23,186)
Unrealised losses on investments	8	(28,737)	(65,964)
Allocated investment return transferred to general business technical account	8	(40,531)	(4,177)
Investment return	8	49,027	(1,371)
Loss on exchange		(12,090)	(3,670)
Profit for the financial year		101,668	34,069

The above results are all derived from continuing operations.

The notes on pages 27 to 50 form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2019

	2019	2018
	£000	£000
Profit for the financial year	101,668	34,069
Currency translation differences	(32,793)	38,329
Total comprehensive income for the financial year	68,875	72,398

Statement of Financial Position as at 31 December 2019

Assets	Notes	2019 £000	2018 £000
Investments			
Other financial investments	9	1,384,274	1,326,252
Reinsurers' share of technical provisions			
Provision for unearned premiums	16	55,524	59,523
Claims outstanding	16	243,683	273,468
		299,207	332,991
Debtors – amounts falling due within one year			
Debtors arising out of direct insurance operations		50,942	60,920
Debtors arising out of reinsurance operations		56,813	65,894
Other debtors	10	51,671	20,789
		159,426	147,603
Other assets			
Cash at bank and in hand	12	120,804	112,138
Prepayments and accrued income			
Deferred acquisition costs	16	51,648	54,308
Other prepayments and accrued income		11,119	10,788
		62,767	65,096
Total assets		2,026,478	1,984,080

The notes on pages 27 to 50 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2019

Liabilities	Notes	2019 £000	2018 £000
Capital and reserves			
Members' balances		608,750	631,063
Technical provisions			
Provision for unearned premiums	16	220,297	225,880
Claims outstanding	16	964,380	956,510
		1,184,677	1,182,390
Deposits received from reinsurers		55	58
Creditors – amounts falling due within one year			
Creditors arising out of reinsurance operations		48,918	48,212
Bank loans and overdrafts	12	109,300	92,022
Other creditors including taxation and social security		60,817	15,978
		219,035	156,212
Accruals and deferred income		13,961	14,357
Total liabilities		2,026,478	1,984,080

The notes on pages 27 to 50 form an integral part of these financial statements.

The syndicate annual accounts on pages 21 to 50 were approved by the board of Chubb Underwriting Agencies Ltd on the 5 March 2020 and were signed on its behalf by:



C P J O'Brien

Director
5 March 2020

Statement of Members' Balances

	Members' Balances
	£000
At 1 January 2018	501,728
Profit for the financial year	34,069
Net transfer into / (out of) members' balances designated as Funds in Syndicate	146,371
Profit distribution	(89,434)
Currency translation differences	38,329
At 31 December 2018	631,063
Profit for the financial year	101,668
Net transfer into / (out of) members' balances designated as Funds in Syndicate	(69,020)
Profit distribution	(21,646)
Other	(522)
Currency translation differences	(32,793)
At 31 December 2019	608,750

Statement of Cash Flows

	Notes	2019 £000	2018 £000
Operating result		101,668	34,069
Increase / (decrease) in gross technical provisions		2,287	(26,457)
Decrease in reinsurers' share of gross technical provisions		33,784	37,364
(Increase) / decrease in debtors		(9,494)	13,549
Increase / (decrease) in creditors		45,149	(3,776)
Investment return		(89,558)	(2,806)
Other		42,831	(32,346)
Net cash inflows from operating activities		126,667	19,597
Investing activities			
Investment income received		46,585	21,405
Purchase of debt and equity investments		(610,694)	(793,244)
Sale of debt and equity investment		476,459	740,678
Other		(9,193)	(6,658)
Net cash outflows from investing activities		(96,843)	(37,819)
Financing activities			
Transfers to members in respect of underwriting participations		(21,645)	(89,434)
Profits added to funds in syndicate		-	146,371
FIS released to member		(69,020)	-
Net cash (outflows) / inflows from financing activities		(90,665)	56,937
(Decrease) / increase in cash and cash equivalents		(60,842)	38,715
Cash and cash equivalents at 1 January		83,150	41,541
Exchange differences on opening cash		5,299	2,894
Cash and cash equivalents at 31 December	12	27,607	83,150
Cash at bank and in hand	12	120,804	112,138
Short-term deposits with credit institutions	12	16,103	63,034
Overdraft	12	(109,300)	(92,022)
Cash and cash equivalents at 31 December	12	27,607	83,150

Notes to the Financial Statements

1. BASIS OF PREPARATION

These annual accounts include all sources of capital supporting the operations of the syndicate. Capital is provided to Lloyd's by the syndicate's member in the form of Funds at Lloyd's ("FAL"), and held in trust as disclosed in note 11. Given that Syndicate 2488 is a fully aligned syndicate, with 100% of the underwriting capacity provided by Chubb corporate capital vehicles, these accounts are able to disclose the total FAL supporting the operations of the syndicate (see note 14).

The syndicate annual accounts have been prepared in accordance with applicable accounting standards in the United Kingdom, including Financial Reporting Standard FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard, "Insurance Contracts" ("FRS 103") and the provisions of Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410"), Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Lloyd's Regulations"), as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the "Regulations").

These annual accounts have been prepared on a going concern basis. The principal accounting policies, which are set out below, have been applied consistently to all the years presented unless otherwise stated.

Syndicate 2488's functional currency is US dollars. The presentational currency is sterling which is common practice in the Lloyd's market and aids comparability.

2. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

In preparing these financial statements, the directors of the managing agent have made judgements, estimates and assumptions that affect the application of the syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements. The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported ("IBNR") to the syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the in-house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

The significant accounting policies used in the preparation of these financial statements are as follows:

Premiums written

Premiums written, which are stated gross of brokerage but exclusive of premium taxes, relate to business incepted during the year, together with adjustments made in the year to premiums written in prior accounting periods. Estimates are made of pipeline premiums, representing amounts due but not yet received or notified to the syndicate by intermediaries.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established risk profiles or time apportionment as appropriate.

Acquisition costs

Acquisition costs comprise brokerage, commissions and other related costs, and are deferred over the period in which the related premiums are earned.

Claims incurred

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect expenses and adjustments to claims outstanding from previous years. Where applicable, deductions are made for reinsurance, salvage and other recoveries.

Provision for claims outstanding and related reinsurance recoveries

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and deduction for expected salvage and other recoveries. The provision also includes the estimated cost of claims incurred but not reported (“IBNR”) at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and where material reported as an asset.

The reinsurers’ share of the provision for claims outstanding is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards the provision for claims outstanding are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provision for gross claims outstanding and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. When calculating the provision for claims outstanding, the reported business segments are subject to specific issues, as set out below:

Fire and other damage to property; marine, aviation and transport; accident and health

These business segments are predominantly “short tail”; that is there is not a significant delay between the occurrence of the claim and the claim being reported to the syndicate. The costs of claims notified to the syndicate at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Third party liability (including marine and aviation liability)

Liability claims are longer tail than the classes of business described above and so a larger element of the provision for claims outstanding relates to IBNR. Claims estimates for the syndicate's liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

Reinsurance acceptances

This business segment includes both short tail and longer tail business, and is subject to the issues laid out in the preceding two sections.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Both realised investment gains and losses are included as part of investment return in the profit and loss account. Dividends receivable are accounted for by reference to the date on which the price of the investment is quoted ex-dividend. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at bid value are calculated as the difference between net sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. Other than investment return on Funds at Lloyd's retained within the syndicate, all investment return has been wholly allocated to the technical account.

Investments

Investments in marketable securities are stated at bid value on the balance sheet date. For quoted investments where there is an active market, this is their quoted bid price at the balance sheet date. For quoted investments where there is no active market, the bid value is determined by reference to prices for similar assets in active markets.

Overseas deposits are stated at cost or market value, as notified by Lloyd's.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments – fair value through profit and loss

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as fair value through profit and loss are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is their quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Insurance and other receivables

Insurance and other receivables are recognised at fair value less any provision for impairment. Any impairment of a receivable will be recognised if there is evidence that the company will not be able to collect the amounts receivable according to the original terms of the receivable.

Insurance and other payables

Payables arising from insurance contracts, creditors and deposits received from reinsurers, are initially measured at cost, which is equal to fair value, net of transaction costs.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading “other debtors”.

No provision has been made for any other overseas tax payable by members on underwriting results.

Foreign currencies

Foreign currency transactions are accounted for, in functional currency, at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, from translating such transactions into the functional currency of the syndicate, and from the revaluation to year end exchange rates of monetary assets and liabilities, are recognised in the profit and loss account.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Results recorded in their functional currency, are translated into sterling at average rates of exchange for the year while assets and liabilities are translated to sterling at year end exchange rates. Differences arising on translation are recorded in the statement of comprehensive income.

Profit commission

Profit commission is chargeable by the managing agent at a rate of 15% of the year of account profit, subject to the operation of a deficit clause. This does not become payable until after the appropriate year of account closes, normally at 36 months.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES – continued

The managing agent has waived its right to the receipt of profit commission for the 2016 and 2017 years of account. It is currently anticipated that the profit commission will also be waived for the 2018 and 2019 years of account.

Reinsurance to close (“RITC”) received from a third party syndicate

When the syndicate accepts a RITC premium from another syndicate it records all of the assets and liabilities transferred from the other syndicate on the balance sheet at fair value on the date the RITC agreement is effective. Any unearned gross and reinsurance premiums included with the RITC transaction are recorded in the income statement on the date of the RITC agreement is effective and immediately deferred as movements in gross and reinsurers’ share of unearned premiums and are subsequently earned over the remaining life of the relevant contracts. The RITC transaction has no impact on the syndicate’s profit or net assets at the time that it is first recorded.

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT

Capital management

CUAL assesses the capital needs for Syndicate 2488 on a risk management basis and maintains an efficient capital structure consistent with its risk profile and business requirements, and to meet regulatory requirements. The company then seeks to maintain financial strength and capital adequacy to support business growth and meet the requirements of policyholders, rating agencies and regulators, whilst retaining financial flexibility by ensuring substantial levels of liquidity. Once the capital needs have been met, it is the policy of the company to distribute any surplus capital through dividends to its ultimate parent company.

From a prudential perspective, the Lloyd’s market is regulated by the PRA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. In line with regulatory requirements CUAL managed its capital levels in 2019 in the context of Solvency II and the Funds at Lloyd’s requirement.

Syndicate 2488’s regulatory capital requirement is set according to the Solvency II Internal Model. The company performs tests and controls to ensure continuous and full compliance with the Solvency II regulations.

The primary objectives of the company in managing capital can be summarised as follows:

- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to manage exposures to key risks; and
- to retain financial flexibility by maintaining strong liquidity.

Insurance risk

Insurance risk arises from underwriting activities both prospective and retrospective. Key risks include unexpected losses arising from inaccurate pricing, fluctuations in the timing, frequency and/or severity of claims compared to expectations, inadequate reinsurance protection and inadequate reserving. The syndicate mitigates the risk of inaccurate pricing by maintaining underwriting discipline throughout its operations with the use of underwriting guidelines, technical expertise and appropriate authority limits which are monitored through price monitoring procedures, an established peer review process and exception monitoring. These guidelines are updated regularly to reflect developments in the nature of the insurance risks being underwritten.

The syndicate’s exposures are continually monitored and the catastrophe management function, independent of underwriting management, has responsibility to model aggregate risk and assists with the pricing of risk, providing a key control to the underwriting process.

The syndicate also uses reinsurance to help mitigate insurance risk by providing coverage against and limiting large individual or aggregated losses. However, the use of reinsurance provides additional risk where reinsurance may transpire to be inadequate in coverage or recoveries cannot be collected due to reinsurer default.

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

The reserving process is owned by the Actuarial Function and includes coordinating the calculation of Technical Provisions; selecting appropriate methods and assumptions for each element of the reserve calculation; ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of the technical provisions; assessing the sufficiency and quality of the data used in the calculation of the technical provisions; comparing best estimate against experience; reviewing sufficiency of reserves; monitoring of large losses; forecasting and planning; regular deep dives; calculation of a range of reasonable estimates; arranging appropriately independent external review and peer review of assumptions and calculations. Challenge and oversight is provided by the Reserve Committee which includes non-executive directors; responsibilities of this committee includes monitoring the risk appetite statements related to reserve risk.

Sensitivity to insurance risk

As highlighted in note 2, there is inherent uncertainty in the ultimate cost of claims for which the company uses a variety of different actuarial techniques to estimate the provision for claims outstanding. If the net claims ratio for the year had been higher by 1%, then the profit for the financial year would have been lower by £3.8 million (2018: £3.6 million) and members' balances would have been lower by £3.8 million (2018: £3.6 million). If the net claims ratio had been lower by 1%, then the profit for the financial year would have been higher by £3.8 million (2018: £3.6 million) and members' balances would have been higher by £3.8 million (2018: £3.6 million).

Concentrations of insurance risk

As shown in note 4, the syndicate writes a diverse book of business across a number of underwriting classes. Approximately 73% of the gross written premiums for 2019 (2018: approximately 78%) related to property and casualty line of insurance, with the remainder split across a number of other classes.

Geographically, 56% (2018: 56%) of gross premiums written in 2019 relate to risks within the United States of America, with the remainder being spread across Europe, Asia Pacific and Latin America.

Financial risk management objectives

The syndicate is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of this financial risk are market risk (including interest rate risk and currency risk), liquidity risk and credit risk.

These financial risks principally arise from the investment activity of the business and consequent holdings in fixed income investments, all of which are exposed to general and specific market movements. The underwriting activity of the business also generates financial risk, particularly in the form of currency risk as well as liquidity and credit risk through its insurance and reinsurance receivables and payables. The notes below explain how financial risks are managed. The processes used to manage these risks are unchanged from previous periods, and cover areas such as investment activity through stochastic modelling of the portfolio, within its internal capital model and consequent capital requirements.

Investment activity governance

The managing agent operates an Investment Committee which functions under terms of reference determined by the Board. The Committee is charged with establishing and effecting an appropriate investment policy for the syndicate having regard to the financial risk appetite of the syndicate. In addition, the committee has the responsibility for recommending the appointment and removal of investment managers, for reviewing the managers' performance and for reporting on all other material aspects of the investment function.

The Investment Committee comprises senior Chubb management along with representatives from Chubb Asset Management, the group's investment specialists who provide advisory services to Chubb group companies, and is chaired by Miriam Connole.

The investment management function is outsourced to specialist external managers.

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Asset allocation policy

The Investment Committee has established an asset allocation policy which defines the limits for different asset types. The broad asset allocation policy cites two major asset classes: investment grade fixed income securities and alternative assets. The policy includes limits within the alternative assets for high yield, emerging market debt, illiquid loans and equities. The policy was reviewed and amended in December 2019. Prior to the amendment the policy stipulated a target range of between 80% and 100% for investment grade fixed income securities and a range of between 0% and 20% for alternative asset classes. The revised policy stipulates a target range of between 70% and 100% for investment grade fixed income securities and a range of between 0% and 30% for alternative asset classes. The current total allocation to alternative assets sits below 20% and is monitored by the Investment Committee. The syndicate held no equities and emerging market instruments in 2019. However, at the start of 2019, the syndicate invested in a new private credit portfolio managed by Oakhill. The new portfolio comprises sterling and Euro denominated privately negotiated illiquid loans with floating coupon rates offering substantial premiums above high yield bonds. This allocation comprises approximately 5% of the overall portfolio.

Investment guidelines

Investment management agreements have been established with the external investment managers. The agreements include specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and counterparty exposures. The managers provide quarterly affirmation of compliance with these guidelines.

Interest rate risk

The syndicate is exposed to interest rate risk primarily through its investments in fixed interest securities and, to the extent that claims inflation is correlated to interest rates, its liabilities to policyholders. Interest rate risk arises in the fixed income investment portfolio primarily through instrument duration. Accordingly, the investment guidelines include restrictions relating to the maximum weighted average duration of the portfolio. The restriction is stated by reference to the permissible duration variance compared to the customised benchmark index by which the external investment managers' performance is assessed.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. To illustrate the downside risk within the fixed interest portfolio of £1,211.1 million at external managers as at 31 December 2019 (2018: £1,183.5 million), the impact of an increase of 50 basis points in interest yields across all portfolios consecutively (principally sterling, euros and US dollars) has been calculated. Such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £22.0 million (2018: £21.2 million) and accordingly decrease total shareholders' funds by £22.0 million (2018: £21.2 million).

Equity price risk

The syndicate held no equities in 2019 (2018: £Nil) and as a result the syndicate is not susceptible to equity price risk.

Currency risk

The syndicate is primarily exposed to currency risk in respect of assets and liabilities under policies of insurance denominated in currencies other than sterling. The syndicate maintains various currency balances generated through regular business activity but the majority of the funds held are denominated in sterling, euros, Canadian dollars and US dollars. The syndicate's policy seeks to ensure that an approximate currency match of assets and liabilities is maintained, with the bulk of surplus funds held in Canadian dollars and US dollars.

Any component of the members' funds denominated in currencies other than sterling gives rise to currency risk due to exchange rate volatility relative to sterling.

The accounting policy for foreign currencies is stated in note 2 to the financial statements.

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

For the profit and loss account, the 2019 average US dollar/sterling rate of US\$1.267/£1 is down 6% on the prior period (2018: US\$1.342/£1). Had the average sterling rate weakened against the US dollar by 10% compared to the actual 2019 average and all other variables remained constant, the profit for the year would have been £11.3 million more than the amount reported (2018: £3.8 million more).

For the monetary components of the balance sheet, the year-end rates used to convert US dollar to sterling has increased 5.7% to US\$1.320/£1 (2018: US\$1.249/£1). Assuming sterling had weakened by 10% against the US dollar and all other variables remained constant, the effect of translating year-end net assets based on these parameters would have resulted in a increase in members' balances of £54.9 million, which would have appeared as a gain in the statement of comprehensive income (2018: £57.4 million gain).

Liquidity risk

Liquidity risk is the risk that the syndicate is unable to meet its obligations as they fall due. To counter this risk, the syndicate aims to maintain funds in the form of cash or cash equivalents to meet known cash flows. In addition, the asset allocation policy and the investment guidelines are structured in order to ensure that funds are predominantly held in investment grade fixed income securities, the proceeds of which are readily realisable.

However, a significant share of the syndicate's investments is held to meet regulatory deposit requirements which may not be available to meet recommended liquidity needs.

Syndicate 2488 participates in a notional pooling programme with other Chubb group companies under a facility operated by Bank Mendes Gans, a subsidiary of ING, which specialises in global liquidity management. The facility operates by the notional pooling of designated balances of the Chubb group participants in order to provide additional liquidity. Chubb group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. On this basis, CUAL maintained an overdraft of £109.3 million at year end (2018: £92.0 million) and credit balances of £112.5 million (2018: £104.6 million) in designated accounts.

The syndicate also benefits from letter of credit facilities which can be utilised to meet certain funding needs and notional pooling facilities with other Chubb group companies which serve to provide additional liquidity.

As indicated in the balance sheet, the syndicate's financial liabilities are all payable within one year. Non-derivative financial liabilities with contractual maturities are paid within agreed terms of trade. Non-derivative financial liabilities with contractual maturities are limited to reinsurance premiums payable and expense accruals.

£000 31 December 2019	No Stated Maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
Deposits received from reinsurers	55	-	-	-	-	55
Claims outstanding	-	317,036	322,343	153,909	171,091	964,379
Creditors	-	219,035	-	-	-	219,035
Total	55	536,071	322,343	153,909	171,091	1,183,469

£000 31 December 2018	No Stated Maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
Deposits received from reinsurers	58	-	-	-	-	58
Claims outstanding	-	315,223	313,783	150,551	176,953	956,510
Creditors	-	156,212	-	-	-	156,212
Total	58	471,435	313,783	150,551	176,953	1,112,780

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The syndicate is exposed to credit risk through its investment activity and its insurance operations.

The syndicate is exposed to investment credit and price risk as a result of its holdings in fixed income. The risk in respect of fixed income investments is moderated by the application of detailed investment guidelines which limit the size of holdings with individual issuers, restrict duration and dictate minimum credit quality, both for individual holdings and for the aggregate weighted portfolio.

The average credit quality of investment portfolios remained high throughout the year and at year end was “A+”. This is comparable to the previous year (“A+”).

The investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible/ineligible investments, setting maximum counterparty exposures and minimum weighted credit quality and individual issuer credit quality.

Credit risk – insurance operations

The syndicate is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are:

- reinsurers’ share of provision for claims outstanding;
- debtors arising from reinsurers in respect of claims already paid;
- amounts due from direct insurance and reinsurance policyholders; and
- amounts due from direct insurance and reinsurance intermediaries.

Ceded reinsurance is used to manage and mitigate inwards direct insurance and reinsurance risk. Ceded reinsurance does not discharge the syndicate’s liability as primary insurer. If a ceded reinsurer fails to pay a claim, the syndicate remains liable for the payment to the policyholder. A Reinsurance Security Committee is operated by the Chubb group which analyses the creditworthiness of ceded reinsurers on a quarterly basis by reviewing their financial strength. In addition, the recent payment history of ceded reinsurers is used to update the reinsurance purchasing strategy.

With regard to direct insurance and reinsurance receivables, the syndicate operates a committee to review broker security, a process for monitoring arrangements with managing general agents, and, in certain circumstances, the requirement for collateral to be posted by the policyholder to the benefit of the syndicate.

The assets bearing credit risk are summarised below:

	2019	2018
	£000	£000
Other financial investments	1,384,274	1,326,252
Reinsurers’ share of technical provisions	299,207	332,991
Debtors arising out of direct insurance operations	50,942	60,920
Debtors arising out of reinsurance operations	56,813	65,894
	<u>1,791,236</u>	<u>1,786,057</u>

Other financial investments are designated as fair value through comprehensive income at inception, and their performance evaluated on a fair value basis, in accordance with a documented investment strategy as detailed in note 3. The Moody’s credit rating for other financial investments is detailed below.

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

	2019	2018
	£000	£000
AAA	121,585	135,182
AA	573,122	629,418
A	256,789	229,477
BBB	168,157	154,302
Below BBB or not rated	264,621	177,873
	<u>1,384,274</u>	<u>1,326,252</u>

Other financial investments are neither past due nor impaired.

The amount of change, during the period and cumulatively, in the fair value of receivables that is attributed to changes in credit risk is represented by a provision for impairment against receivables past due.

Reinsurers' share of technical provisions includes claims outstanding, related claims handling costs and IBNR. This is described along with the valuation methods in note 2. This balance includes 2.4% past due that have been impaired (2018: 2.7%).

Debtors arising out of direct and reinsurance operations are held at fair value less any provision for impairment as described in note 2. Debtors arising out of direct and reinsurance operations include:

	2019	2018
Impaired	<u>0.0%</u>	<u>0.0%</u>
Past due but not impaired:		
0 to 6 months past due	18.5%	23.0%
6 to 12 months past due	2.5%	2.8%
Over 12 months past due	6.3%	7.7%
Total past due but not impaired	<u>27.3%</u>	<u>33.5%</u>

The Standard & Poor's credit rating for reinsurers' share of claims outstanding and debtors arising out of reinsurance operations that are neither past due nor impaired are detailed below.

	2019	2018
	£000	£000
AA	168,160	184,835
A	84,343	102,950
BBB	(633)	(41)
Below BBB	17	3
Not rated	7,827	5,576
	<u>259,714</u>	<u>293,323</u>

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS

Segmental information in the format required by Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors 2017 (“the Regulations”), is as follows:

	Gross premiums written £000	Gross premiums earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance balance £000
Year to 31 December 2019					
Direct Insurance					
Fire and other damage to property	174,870	171,494	(73,561)	(61,810)	(13,402)
Marine, aviation and transport	56,905	56,472	(32,687)	(20,835)	1,952
Accident and health	755	1,600	(1,433)	(1,060)	(52)
Third party liability	125,964	124,967	(92,637)	(38,081)	(2,780)
Miscellaneous	10,147	11,974	(2,956)	(11,692)	4,884
Reinsurances acceptances	119,534	114,501	(65,579)	(18,428)	(26,652)
TOTAL	488,175	481,008	(268,853)	(151,906)	(36,050)
Year to 31 December 2018					
Direct Insurance					
Fire and other damage to property	160,487	164,148	(63,857)	(65,053)	(14,839)
Marine, aviation and transport	53,708	54,155	(28,108)	(19,426)	(7,767)
Accident and health	1,660	1,622	(1,220)	(910)	(149)
Third party liability	128,672	129,501	(73,751)	(43,205)	(11,326)
Miscellaneous	11,138	12,288	(280)	(7,286)	646
Reinsurances acceptances	84,426	93,929	(33,295)	(16,723)	(34,162)
TOTAL	440,091	455,643	(200,511)	(152,602)	(67,597)

The reinsurance balance represents the credit/(charge) to the technical account from the aggregate of all items relating to outwards reinsurance. All business is completed in the United Kingdom.

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS – continued

Gross written premium information by destination (location of risk) as required by Schedule 1, Regulations 2015 (Part V, 84) is as follows:

	2019	2018
	£000	£000
United Kingdom	46,677	48,691
United States of America	275,132	247,965
Continental Europe	37,583	41,546
Africa and Middle East	17,248	20,143
Asia Pacific	30,910	25,160
Americas	80,625	56,586
	<u>488,175</u>	<u>440,091</u>

5. MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

The prior year's net provision for claims outstanding generated a surplus for 2019 (2018: surplus) as detailed below:

	2019	2018
	£000	£000
Direct insurance		
Fire and other damage to property	1,763	14,559
Marine, aviation and transport	16,394	(1,045)
Accident and health	-	(662)
Third party liability	(12,266)	1,779
Miscellaneous	1,533	9,619
Reinsurance acceptances	(2,824)	(3,262)
	<u>4,600</u>	<u>20,988</u>

Notes to the Financial Statements

6. NET OPERATING EXPENSES

	2019	2018
	£000	£000
Acquisition costs	117,314	110,634
Change in deferred acquisition costs	791	9,568
Administrative expenses	33,403	32,400
Reinsurance commission	(15,455)	(14,687)
	<u>136,053</u>	<u>137,915</u>

“Acquisition costs” includes total commissions for direct business amounting to £88.7 million (2018: £88.7 million).

“Administrative expenses” covers most expenses generally classified as syndicate expenses, net of an element of those expenses which are indirect acquisition costs and therefore included within acquisition costs, Lloyd’s Central Fund contributions and Lloyd’s subscriptions.

The managing agent’s fee in 2019 was significantly lower than in 2018 (£0.4 million compared with £37.6 million). Most of the services used by the syndicate (including staff costs, accommodation, IT, professional fees and travel) are provided by Chubb Services UK Limited (“CSUK”). Prior to 2019 the managing agent’s fee included reimbursement for the cost of these services to CSUK but indirectly via CUAL. With effect from 2019 the syndicate reimburses CSUK directly for the services it receives and pays a reduced fee to CUAL for managing agency services only.

Auditor’s remuneration

During the year, the syndicate obtained the following services from the managing agent’s auditors and their associates.

	2019	2018
	£000	£000
Fees payable to the syndicate’s auditors and their associates for the audit of the syndicate’s annual accounts	400	300
Fees payable to the syndicate’s auditors and their associates for other services:		
Audit-related assurance services	<u>95</u>	<u>72</u>
	<u>495</u>	<u>372</u>

“Audit-related assurance services” includes the audit of the syndicate’s regulatory returns.

Notes to the Financial Statements

7. DIRECTORS AND EMPLOYEES

Staff costs

The managing agency has no employees (2018: none). Staff that support the syndicate and managing agency are employed by Chubb Services UK Limited ("CSUK"), a fellow Chubb group undertaking. With effect from 2019 staff costs are included in the fee charged by CSUK and are reimbursed by the syndicate directly to CSUK. Prior to 2019 reimbursement for staff costs was covered by the managing agency fee, as described in note 6.

Directors' emoluments

All directors of the managing agent received emoluments from CSUK in respect of their services to the syndicate and Chubb group companies. The cost of these emoluments is included in a fee reimbursed directly to CSUK by the syndicate. It is not practical to allocate these amounts to the underlying entities to which the directors provide services. Consequently, the following amounts represent the total emoluments paid by CSUK in respect of the directors of the managing agent.

	2019	2018
	£000	£000
Aggregate emoluments and benefits	2,561	3,967
Company pension contributions to money purchases pension schemes	37	8
	<u>2,598</u>	<u>3,975</u>

Included in the above amounts paid by CSUK in respect of the directors of the managing agent are:

	2019	2018
	£	£
Emoluments and benefits paid to the Active Underwriter	646,455	607,433
Emoluments and benefits paid to the highest paid director	931,843	1,194,937
Accrued pension and accrued lump sum in respect of the highest paid director	-	-

The aggregate emoluments above do not include share-based remuneration. All executive directors of the managing agent are entitled to shares in Chubb Limited under long-term incentive plans. During the year, five directors received shares in Chubb Limited under long-term incentive plans and two directors exercised options over the shares of Chubb Limited. The active underwriter and highest paid director received shares in Chubb Limited under long-term incentive plans. Disclosures relating to the share-based payments are contained within the financial statements of CSUK.

Notes to the Financial Statements

8. INVESTMENT RETURN

	2019	2018
	£000	£000
Investment Income		
Investment income	47,790	41,166
Gains on the realisation of investments	8,655	3,426
	<u>56,445</u>	<u>44,592</u>
Investment expenses and charges		
Investment management expenses	(2,613)	(1,422)
Losses on the realisation of investments	(7,247)	(21,764)
	<u>(9,860)</u>	<u>(23,186)</u>
Net unrealised gains and losses on investments		
Unrealised gains on investments	71,710	47,364
Unrealised losses on investments	(28,737)	(65,964)
	<u>42,973</u>	<u>(18,600)</u>
Total Investment Return	<u>89,558</u>	<u>2,806</u>
Investment return is analysed between:		
Allocated investment return transferred to the general business technical account	40,531	4,177
Net Investment included in the non-technical account	49,027	(1,371)
	<u>89,558</u>	<u>2,806</u>

Notes to the Financial Statements

9. OTHER FINANCIAL INVESTMENTS

	2019	2018
	£000	£000
Market value:		
Shares and other variable yield securities	1,434	-
Debt securities and other fixed interest securities	1,211,144	1,183,474
Overseas deposits	84,730	79,744
Deposits with credit institutions	16,102	63,034
Other Investments	70,864	-
	<u>1,384,274</u>	<u>1,326,252</u>
Cost:		
Shares and other variable yield securities	1,434	-
Debt securities and other fixed interest securities	1,190,937	1,198,854
Overseas deposits	84,730	79,744
Deposits with credit institutions	16,102	63,034
Other Investments	69,844	-
	<u>1,363,047</u>	<u>1,341,632</u>

All securities are listed investments.

The overseas deposits are held under Lloyd's premium trust deed arrangements where applicable and are administered by Lloyd's. The syndicate is required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets. All such overseas deposits are calculated in accordance with the relevant territorial authority's requirements, usually by reference to outstanding liabilities derived from business written in those territories.

£622.1 million (2018: £671.4 million) of the total market value relates to Funds at Lloyd's, as explained in note 11. This is analysed as follows:

	2019	2018
	£000	£000
Market value:		
Debt securities and other fixed interest securities	547,093	637,988
Deposits with credit institutions	4,101	33,439
Other Investments	70,864	-
	<u>622,058</u>	<u>671,427</u>
Cost:		
Debt securities and other fixed interest securities	533,808	648,499
Deposits with credit institutions	4,101	33,439
Other Investments	69,844	-
	<u>607,753</u>	<u>681,938</u>

Notes to the Financial Statements

9. OTHER FINANCIAL INVESTMENTS - continued

Fair Value Hierarchy

FRS 102 requires the syndicate to classify financial instruments into a fair value hierarchy as follows:

- Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the syndicate can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. 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.

An analysis of financial instruments at 31 December 2019 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable yield securities	-	1,434	-	1,434
Debt securities and other fixed income securities	353,233	856,397	1,514	1,211,144
Loans and deposits with credit institutions	6,880	9,222	-	16,102
Overseas deposits	37,741	46,989	-	84,730
Other Investments	-	-	70,864	70,864
Total	397,853	914,042	72,378	1,384,274

An analysis of financial instruments at 31 December 2018 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Debt securities and other fixed income securities	345,566	836,065	1,843	1,183,474
Loans and deposits with credit institutions	26,221	36,813	-	63,034
Overseas deposits	39,836	39,908	-	79,744
Total	411,623	912,786	1,843	1,326,252

Notes to the Financial Statements

9. OTHER FINANCIAL INVESTMENTS - continued

'Debt securities and other fixed interest securities' with active markets such as Government securities are classified within Level 1, as fair values are based on quoted market prices. For debt securities and other fixed interest securities that trade in less active markets, including corporate securities, fair values are based on the output of pricing models, the significant inputs into which include, but are not limited to, yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. These debt securities and other fixed interest securities are classified within Level 2. For debt securities and other fixed interest securities and debt securities and other fixed interest securities for which pricing is unobservable, these are classified within Level 3.

'Loans and deposits with credit institutions' include short term investments, such as liquidity funds. Where such securities are traded in active markets, they are classified within Level 1, as fair values are based on quoted market prices. Where no active market exists for such securities they are typically classified within Level 2 and where pricing is unobservable, Level 3.

For securities in level 3 where pricing is based on unobservable inputs, valuations are sourced from models and / or third parties. Any third party models are reviewed and approved by the Chubb Group's specialist asset management function on a quarterly basis. Significant uncertainty would be considered to exist in relation to pricing based on unobservable inputs. However, for Syndicate 2488 this uncertainty is considered to be immaterial as the exposure to these types of assets is only a small proportion, 5.2%, of the investment portfolio as at 31 December 2019 (2018: 0.1%). The growth in 2019 is attributable to the new private credit portfolio managed by Oakhill.

An analysis of movements during the year in Level 3 balances is as follows:

	2019
	£000
Balance at 1 January 2019	1,843
Gains recognised in profit and loss account	2,261
Sales	(397)
Transfers in (out) of Level 3	68,671
Balance at 31 December 2019	<u>72,378</u>

Notes to the Financial Statements

10. OTHER DEBTORS

	2019	2018
	£000	£000
Amounts falling due within one year:		
Amounts due from members	-	1,006
Amounts due from group companies	51,641	18,339
Other debtors	30	1,444
	<u>51,671</u>	<u>20,789</u>

Amounts due from members relate to payments on account of United States Federal Income Taxes.

There are no debtors due in greater than 1 year.

11. MEMBERS' BALANCES

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Members' balances are supported by Funds at Lloyd's ("FAL"), as disclosed in note 14.

Members' balances at 31 December 2019 include £618.9 million (2018: £676.7 million) designated as FAL.

Members' balances designated as FAL are included in the following asset headings:

	2019	2018
	£000	£000
Other financial investments	617,958	637,988
Deposits with credit institutions	4,101	33,439
Other prepayment and accrued income	(3,190)	5,315
Total assets designated as Funds at Lloyd's	<u>618,869</u>	<u>676,742</u>

12. CASH AND CASH EQUIVALENTS

An analysis of cash and cash equivalents is as follows:

	2019	2018
	£000	£000
Cash at bank and in hand	120,804	112,138
Short-term deposits with credit institutions	16,102	63,034
Overdrafts	(109,300)	(92,022)
	<u>27,606</u>	<u>83,150</u>

Short-term deposits with credit institutions include deposits held at call with banks and other short term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

Notes to the Financial Statements

13. TRANSACTIONS WITH RELATED PARTIES

The ultimate holding company of the syndicate's managing agent, Chubb Underwriting Agencies Limited ("CUAL"), is Chubb Limited, a company which is registered in Zurich, Switzerland and quoted on the New York Stock Exchange.

Copies of the ultimate holding company's consolidated accounts can be obtained from Investor Relations at Chubb's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.

The principal related reinsurance partner of the syndicate is Chubb Tempest Re, a leading global multi-line reinsurer that is part of the Chubb group. The syndicate may have reinsured, or have been reinsured by, insurance companies in which Chubb Limited has interests and of which it and certain of its subsidiaries are controllers.

During calendar year 2019, a number of outwards reinsurance contracts were effected with group companies. The main excess of loss reinsurance programmes in operation during 2019 were shared with other Chubb companies, including Chubb European Group SE.

The following is a summary of the reinsurance transactions and balances with related parties in 2019 and as at 31 December 2019:

Reinsurance Premium Related	Chubb Tempest Reinsurance	Chubb European Group SE	Chubb America	Other	Total
	£m	£m	£m	£m	£m
Reinsurance Premiums	21.6	2.3	0.5	0.1	24.5
Reinsurance Commissions	1.4	0.6	-	-	2.0
Reinsurers' share of Unearned Premium Reserve	9.9	0.7	0.2	0.1	10.9
Reinsurance Creditor	11.3	1.1	0.2	1.0	13.6
Reinsurance Recovery Related	Chubb Tempest Reinsurance	Chubb European Group SE	Chubb America	Other	Total
	£m	£m	£m	£m	£m
Change in reinsurers' share of Claims Incurred	8.1	1.9	(0.6)	5.1	14.5
Balance of reinsurers' share of Claims Outstanding	62.5	3.5	8.0	0.9	74.9
Reinsurance Debtor	1.6	0.1	0.1	1.1	2.9

The syndicate's capacity for the 2017, 2018 and 2019 years of account is provided entirely by Chubb Capital I Limited, which is a corporate member of Lloyd's, participating only on Syndicate 2488. Chubb Capital I Limited is a wholly owned subsidiary within the Chubb group.

Managing agency fees of £0.4 million (2018: £37.6 million) were paid by the syndicate to CUAL. See note 6 for an explanation for the reduction in managing agent's fee in 2019. Staff providing services to CUAL and the syndicate are employed by Chubb Services UK Limited ("CSUK"), another Chubb Limited company. CSUK settles expenses on behalf of, and provides services to, the syndicate and CUAL. During 2019 the syndicate incurred expenses of £37.6 million (2018: £ nil) from CSUK and had an outstanding balance with CSUK of £28.1 million payable as at 31 December 2019 (2018: £2.8 million due).

14. FUNDS AT LLOYD'S

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL"). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities and can therefore be considered as the capital supporting the operations of the syndicate.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulatory Authority ("PRA") requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and assessment of the reserving risk in respect of business that has been underwritten. The syndicate's members have met their FAL requirements by the retention of closed year of account profits in the syndicate. At 31 December 2019 FAL totaled £618.9 million (2018: £676.7 million).

Notes to the Financial Statements

15. CLAIMS DEVELOPMENT TABLES

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than 10 years. When adopting FRS 103 for the first time in 2015, the standard allowed the syndicate to disclose information in relation to claims development occurring up to 5 years prior to 2015, and to thereafter add one extra development year annually up to the maximum of 10 years. The top half of the table shows how the estimates of total claims for each underwriting year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The cumulative claims estimates and payments for each underwriting year are translated into sterling at the current year-end rates. The data for claims development periods prior to 2019 includes data in those periods relating to Syndicate 1882, which was reinsured and closed into Syndicate 2488 with effect from 1 January 2019.

Claims development as at 31 December 2019 – Gross

	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimates:										
End of underwriting year	181,558	178,457	129,687	129,334	143,245	131,912	148,305	101,458	95,603	1,239,559
One Year Later	382,485	334,842	304,318	292,888	303,253	318,044	301,503	267,339	-	2,504,672
Two Years Later	460,893	332,404	310,097	292,338	330,954	329,541	334,706	-	-	2,390,933
Three Years Later	406,484	307,865	303,363	291,626	315,733	324,239	-	-	-	1,949,310
Four Years Later	392,919	303,802	279,985	288,856	293,534	-	-	-	-	1,559,096
Five Years Later	389,558	295,324	261,822	285,884	-	-	-	-	-	1,232,588
Six Years Later	388,440	293,319	259,562	-	-	-	-	-	-	941,321
Seven Years Later	377,123	295,618	-	-	-	-	-	-	-	672,741
Eight Years Later	371,395	-	-	-	-	-	-	-	-	371,395
Current estimate of ultimate claims	371,395	295,618	259,562	285,884	293,534	324,239	334,706	267,339	95,603	2,527,880
Cumulative payments	(345,426)	(244,348)	(210,049)	(230,293)	(211,388)	(209,974)	(219,817)	(98,966)	(11,887)	(1,782,148)
In balance sheet	25,969	51,270	49,513	55,591	82,146	114,265	114,889	168,373	83,716	745,732
Provision for prior financial years										218,648
Liability in the balance sheet										964,380

Notes to the Financial Statements

15. CLAIMS DEVELOPMENT TABLES- continued

Claims development as at 31 December 2019 – Net

	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimates:										
End of underwriting year	145,116	130,725	102,224	104,043	113,020	103,083	103,329	79,857	76,729	958,127
One Year Later	281,167	256,554	239,997	242,608	241,518	249,456	237,832	207,046	-	1,956,178
Two Years Later	322,597	262,616	243,725	247,779	268,979	268,542	260,984	-	-	1,875,222
Three Years Later	271,913	254,657	242,469	255,878	258,759	253,119	-	-	-	1,536,794
Four Years Later	275,361	252,089	228,151	252,357	237,543	-	-	-	-	1,245,503
Five Years Later	275,954	248,158	213,263	242,160	-	-	-	-	-	979,535
Six Years Later	277,593	254,730	204,960	-	-	-	-	-	-	737,284
Seven Years Later	272,403	247,421	-	-	-	-	-	-	-	519,823
Eight Years Later	258,652	-	-	-	-	-	-	-	-	258,652
Current estimate of ultimate claims	258,652	247,421	204,960	242,160	237,543	253,119	260,984	207,046	76,729	1,988,615
Cumulative payments	(240,620)	(201,044)	(172,561)	(200,179)	(175,542)	(170,306)	(173,348)	(75,660)	(11,485)	(1,420,743)
In balance sheet	18,033	46,377	32,400	41,981	62,001	82,812	87,636	131,386	65,244	567,871
Provision for prior financial years										152,825
Liability in the balance sheet										720,696

Notes to the Financial Statements

16. RECONCILIATION OF INSURANCE BALANCES

The reconciliation of opening and closing deferred acquisition costs is as follows:

	2019	2018
	£000	£000
At 1 January	54,308	60,608
Change in acquisition costs deferred during the year	(1,189)	(9,568)
Foreign exchange movement	(1,471)	3,268
At 31 December	<u>51,648</u>	<u>54,308</u>

The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		Reinsurers' share	
	2019	2018	2019	2018
	£000	£000	£000	£000
At 1 January	225,880	226,682	59,523	60,497
Increase/(decrease) in provision	7,167	(15,552)	(1,063)	(4,734)
RITC from Syndicate 1882	7,949	-	735	-
Foreign exchange movements	(20,699)	14,750	(3,671)	3,760
At 31 December	<u>220,297</u>	<u>225,880</u>	<u>55,524</u>	<u>59,523</u>

The reconciliation of opening and closing provision for claims is as follows:

	Gross		Reinsurers' share	
	2019	2018	2019	2018
	£000	£000	£000	£000
At 1 January	956,510	982,165	273,468	309,858
Decrease in provision	(83,530)	(73,107)	(33,430)	(51,317)
RITC from Syndicate 1882	143,759	-	14,517	-
Foreign exchange movements	(52,359)	47,452	(10,872)	14,927
At 31 December	<u>964,380</u>	<u>956,510</u>	<u>243,683</u>	<u>273,468</u>

17. ULTIMATE HOLDING COMPANY

The managing agent's immediate holding company is Chubb Leadenhall Limited. The managing agent's ultimate holding company is Chubb Limited, a company which is registered in Zurich, Switzerland and quoted on the New York Stock Exchange. Copies of the ultimate holding company's consolidated accounts can be obtained from Investor Relations at Chubb's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.

