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Brit Syndicate 2988

2019 Annual Report and Accounts



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Report of the Directors of the Managing Agent

The Directors of the Managing Agent, Brit Syndicates Limited (BSL) a company registered in England and Wales, present the report and annual accounts of Syndicate 2988 (the Syndicate) for the year ended 31 December 2019.

These annual accounts are prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (Lloyd's Regulations 2008).

Principal activities and review of the business

The Syndicate's principal activity is the underwriting of general insurance and reinsurance business in the Lloyd's market.

The Syndicate participates only on new and renewal business written by Brit's Syndicate 2987 and in excess of Syndicate 2987's appetite. The strategy is to focus on business with a profitable track record and where there are opportunities to underwrite business that Brit leads or where Brit has a strong market presence. The underwriting strategy reflects the Directors' view of prevailing market conditions in the classes of business written by the Syndicate during the year.

The result for the 2019 calendar year is a loss of £10,146.8k (2018 loss: £22,180.2k).

The Syndicate's key performance indicators (KPI's) during the year were as follows:

	2019	2018
	£'000	£'000
Gross premiums written	110,351.1	106,533.5
Net premiums written	94,879.5	98,332.5
Earned premiums, net of reinsurance	94,191.2	83,084.6
Underwriting result	(10,750.2)	(22,946.6)
Investment return	1,455.6	516.9
Technical result for the financial year	(9,294.6)	(22,429.7)
Non-technical account for the financial year	(852.2)	249.5
Result for the financial year	(10,146.8)	(22,180.2)
Total comprehensive income for the financial year	(8,036.9)	(24,525.6)
Claims ratio	71.4%	89.1%
Expense ratio	40.0%	38.5%
Combined ratio	111.4%	127.6%

Report of the Directors of the Managing Agent (continued)

Gross premiums written

An analysis of gross premiums written by Brit portfolio and division is set out below:

	2019 £'000	2018 £'000
Short-Tail Direct		
Property, Political Risks & Violence (PRV)	13,978.4	19,561.7
Property Facilities	23,880.2	15,621.7
Marine & Energy	5,596.6	8,456.5
Aviation (Space)	711.2	847.0
Accident & Health	7,376.2	5,627.4
Long-Tail Direct		
Professional Lines	17,784.2	8,492.3
Specialty Lines	5,699.7	6,508.7
Specialist Liability	1,778.0	575.0
BGSU US Specialty		
BGSU Casualty	3,422.6	490.7
BGSU Property	3,726.3	6,214.2
Short-Tail Reinsurance	15,295.8	14,226.9
Long-Tail Reinsurance	4,930.0	2,661.6
Discontinued*	6,171.9	17,249.8
Total	110,351.1	106,533.5

*2018 comparative represents the premiums written for those classes denoted as discontinued during 2019

In its third year of underwriting Syndicate gross premiums written increased 3.6% to £110,351.1k (2018: £106,533.5k). When adjusted for constant rates of exchange, premiums marginally decreased year on year (2018 rebased at 2019 rates: £110,689.3k).

Despite a continuation of favourable market conditions (estimated risk adjusted rate change of +5.7%), gross premiums written fell short of expectations for the year. Action taken by Brit to withdraw from or curtail underwriting in poorly performing lines of business was a material contributor to this variance. Further detail is set out below.

Short-Tail Direct

'Property, Political Risks & Violence (PRV)' comprises US and International Property risks written on a direct basis, as well as Terrorism and Specie books.

The Syndicate reported premium decreases when compared to 2018. International Property was a challenging class for which capacity was scaled back for 2019, whilst attempting to place lines in Terrorism in a very competitive market also proved to be a challenge.

Offsetting this to a degree was US Property where double-digit risk adjusted rate was achieved, with the focus on deploying 2988 stamp on the best risks.

On Property Facilities, the Syndicate's plan included increasing its presence in North American Household and Commercial Facilities, with the underwriting strategy to move away from Household High Value, whilst also including a very modest expectation for risk adjusted rate increases. The Syndicate more than achieved plan rate, with sound single digit rate increases across all underlying classes. The Syndicate also benefitted from favourable development on prior year income as well as the introduction of a modest book of Transportation business for the second half of 2019.

Report of the Directors of the Managing Agent (continued)

The Marine account covers Hull, Cargo, Marine Liability, Specie and Energy, with Energy being written in the Syndicate for the first time in 2019. The Syndicate scaled back across many of the Marine classes, a segment significantly affected by market losses and unfavourable pricing conditions. The Marine appetite was redirected to take advantage of favourable rates in Cargo, whilst also seeking to diversify the book further by introducing Energy.

The Aviation class only includes Space risks. Gross premiums written from this class of business can be difficult to predict as it is dependent on the timing of satellite launches. The Syndicate wrote in line with the plan for 2019, with premiums broadly similar year on year.

The Accident & Health business focusses primarily on Personal Accident and Contingency. The Syndicate continued to grow both the Personal Accident and Contingency books in 2019, with continued access to new business opportunities and renewals benefitting from favourable market conditions. The Syndicate also planned to diversify the book further with the introduction of Kidnap and Ransom in 2019, however limited traction meant that the income was relatively modest.

Long-Tail Direct

The Syndicate's Long-Tail Direct portfolio is focused on Cyber and Directors & Officers (D&O), and also includes a growing element of Legal Expenses and International Public Liability (PL Int.) business.

A significant proportion of the Professional Lines income emanates from the Cyber class. This is a relatively mature book for the Syndicate which has achieved good penetration, usually being offered on most risks being quoted by Syndicate 2987. Despite over capacity in the market, the Syndicate has managed to achieve year-on-year growth which is a reflection of Brit's well-established and highly-respected Cyber team.

The D&O business within Specialty Lines is largely sourced through Ambridge Partners LLC, a US-based managing general underwriter, which was fully acquired by the Brit group in April 2019. This enables Brit to influence the flow of business into its managed syndicates.

Brit Global Specialty USA (BGSU)

BGSU represents business sourced through a dedicated Service Company, Brit Insurance Services Inc. BGSU covers a wide range of property and casualty classes written on an Excess and Surplus (E&S) basis and provides access to risks that would not typically reach the London Market through traditional routes.

2019 saw significant growth in BGSU Casualty business, with both Cyber US and Package Liability meeting planned growth expectations.

Conversely, BGSU Property income reduced, reflecting a reduced appetite and line size following adverse loss experience in 2017 and 2018.

Short-Tail Reinsurance

The Short-Tail Reinsurance portfolio includes both Treaty Risk and Treaty Catastrophe business with a North American focus, as well as a small amount of International Treaty Catastrophe business.

The Short-Tail Reinsurance book is a high performing account and the Syndicate modestly grew the income from this portfolio in 2019. The ability to fully deploy, and therefore grow, Syndicate 2988 income in this market remains challenging with continued over-capacity and competition for the best business showing no sign of abating.

Long-Tail Reinsurance

The Long-Tail Reinsurance team writes Treaty Risk and Treaty Catastrophe, with the portfolios being split between Long-Tail and Short Tail books.

The Syndicate wrote both Long-Tail Risk and Catastrophe for the first time in 2018 and grew both accounts into 2019 in line with plan, gaining good traction with cedants.

As one of the best performing accounts within Brit, the Syndicate will seek to gradually increase deploying capacity to this class over time.

Report of the Directors of the Managing Agent (continued)

Discontinued

Towards the end of 2018, the decision was made to exit from the Engineering & Contractors' Plant and Equipment book following poor performance in 2017 and 2018. The class was a material contributor to the Syndicate's income base in both of those years. In Q3 2019, the decision was made to exit certain BGSU classes, reflecting a combination of poor performance and lack of scale. As a consequence, the income from these classes reduced by £11,077.9k in 2019 compared to 2018.

Outwards reinsurance

The reinsurance strategy for 2019 was consistent with previous years, being focused on providing protection against catastrophe losses.

The Syndicate renewed its catastrophe aggregate excess of loss cover which provides protection for the Syndicate's Property Direct and Reinsurance business, as well as a contribution towards Marine losses. The Syndicate also purchased a catastrophe excess of loss cover protecting the Property Direct books. The cover inured to the benefit of the aggregate protection thereby limiting the need to change the limit and deductible on the aggregate placement.

The Syndicate also renewed its Cyber specific reinsurance protection for 2019. The protection combines both excess of loss protection and a stop loss, reflecting the potential for both large single risk losses as well as the accumulation of losses in this class due to systemic events.

Underwriting result

The Syndicate reported an underwriting loss of £10,750.2k (2018 loss: £22,946.6k) and a combined ratio of 111.4% (2018: 127.6%). The result for the year has been impacted by lower than expected premium growth as well as reserve strengthening on prior year losses.

Major losses incurred by the Syndicate during 2019 again include wind-related events in both the United States and Asia but to a far lesser extent than those experienced during 2018. The table below sets out the impact on the Syndicate's results analysed by event:

Major losses	2019	2018
	£'000	£'000
Hurricane Dorian	1,948.7	-
Typhoon Faxai	925.9	-
Typhoon Hagibis	2,845.1	-
Hurricane Jebi	-	378.5
Hurricane Florence	-	3,485.2
Typhoon Mangkhut	-	629.2
Hurricane Michael	-	9,683.7
California Wildfires	-	6,954.2
Total	5,719.7	21,130.8
Effect on the COR%	6.1%	25.4%

The impact of the 2019 major losses on the loss ratio was 6.1%. This compares to 25.4% in the prior year, reflecting a return to much more normalised catastrophe experience following two years of heightened activity.

Absent the 2019 major loss events, the loss ratio is 65.3% (2018: 63.7%). The increase relative to the prior year is a combination of adverse developments on 2017 and 2018 catastrophe events, most notably the Southern Californian Wildfires and the Mexican Earthquake, and increases to the 2018 year of account ex-cat loss ratios. This follows adverse attritional and large loss experience across a number of classes.

Report of the Directors of the Managing Agent (continued)

The expense ratio for the 2019 financial year of 40% has increased compared to the prior year (38.5%). This is predominantly driven by lower than expected written and earned premiums, as well as growing costs for conducting business at Lloyd's. As a material element of the Syndicate's administrative expense base is fixed and determined on planned gross premiums, a shortfall relative to plan has an adverse impact on the expense ratio.

Investment return

Total investment return net of investment management fees was £1,455.6k (2018: £516.9k). The portfolio of investments during 2019 was broadly consistent to 2018, comprising US Treasury Bills, cash, holdings in collective investment schemes and deposits held in overseas jurisdictions as required by regulation in order to conduct business in those regions. The Syndicate further diversified the portfolio by investing in short term Canadian Treasury Bills during 2019.

Syndicate outlook

The stamp capacity for the 2020 year of account has increased 52% to £149.0m (2019 year of account: £98.0m) with the level of planned premium being written off this stamp increasing by over 46%. For 2020, capacity is being provided by an expanded investor base and by Brit, thereby demonstrating Brit's alignment to the strategy of the Syndicate.

Growth in the premium base represents a combination of both the expansion of existing lines of business together with the selective introduction of new classes to further diversify the Syndicate's portfolio. The Syndicate will also write a whole account quota share of Brit's Syndicate 2987 for 2020.

Going concern

Following a review of the financial performance and position of the Syndicate, the Directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the report and accounts.

United Kingdom's exit from the European Union (Brexit)

Brit has continued to work to minimise the impact of Brexit on the Syndicate and Brit's clients. While direct European business is not material for the Syndicate, Brit has continued to monitor and evaluate the associated risks and has implemented the processes and business changes required to write business onto Lloyd's new Brussels-based European insurance company (LBS), of which Brit are fully supportive.

The known work required is complete and new processes are operational. The Syndicate commenced writing business via LBS in the fourth quarter of 2018, for risks incepting on or after 1 January 2019. The placement process is more onerous than for non-European business, however, the solution in place is the most effective approach given that the UK will potentially lose its passporting rights.

Following the UK's exit from the EU on 31 January 2020, significant uncertainties remain surrounding the UK's future relationship with the EU, with potentially unknown economic and political implications for the UK. Brit continues to monitor developments closely.

Coronavirus (COVID-19) outbreak

The Board have been closely monitoring the Coronavirus (COVID-19) outbreak as it continues to evolve, with outbreaks being reported across the globe.

Potential risks from the virus include not only insurance risk, but also investment and solvency risk following the capital market's response to the outbreak.

Brit is committed to and focused on the potential impact on its customers, capital providers and employees. We remain responsive to the needs of our customers and have contingency plans in place to ensure we can continue to provide the right level of customer service, and to protect the health and well-being of our employees.

We continue to monitor the situation and will adapt our plans as necessary to ensure we act in the best interests of all our stakeholders.

Report of the Directors of the Managing Agent (continued)

Principal risks and uncertainties

The information on principal risks and uncertainties is disclosed in note 3 to the accounts.

Employee and environmental matters

All staff in the UK are employed by Brit Group Services Limited, the group services company and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.

Brit is committed to managing and reducing its environmental impact in a cost effective and responsible way.

Directors

The names of the current Directors of the Managing Agent and those who have served during the year are shown on page 45.

Independent Auditors

PricewaterhouseCoopers LLP remain in office as the Syndicate's Auditors.

Statement of disclosure of information to the Auditors

Each person who is a Director of the Managing Agent at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information, being information needed by the Syndicate's auditors in connection with its report, of which the Syndicate's auditors are unaware; and
- he or she has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000) the Managing Agent does not propose holding a Syndicate Annual General Meeting of members of Syndicate 2988. Objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members to the Compliance Officer at the Managing Agent's registered address by 20 April 2020.

On behalf of the Board,

Matthew Wilson
Chief Executive Officer
03 March 2020

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate annual accounts; and
4. 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 requirement in preparing the Syndicate annual accounts.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Syndicate 2988

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 2988'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 loss 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 2019 Annual Report and Accounts (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 changes in members' balances and the statement of cash flows 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.

Independent Auditor's Report to the Members of Syndicate 2988 (continued)

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 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 page 8, 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.

Independent Auditor's Report to the Members of Syndicate 2988 (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body 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.

Mark Bolton (Senior statutory auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
03 March 2020

Income Statement

Technical Account – General Business for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Gross premiums written	4	110,351.1	106,533.5
Outward reinsurance premiums		(15,471.6)	(8,201.0)
Net premiums written		94,879.5	98,332.5
Change in the gross provision for unearned premiums	11	(1,504.8)	(15,064.0)
Change in the provision for unearned premiums, reinsurers' share	11	816.5	(183.9)
Net change in the provision for unearned premiums		(688.3)	(15,247.9)
Earned premiums, net of reinsurance		94,191.2	83,084.6
Allocated investment return transferred from the non-technical account		1,455.6	516.9
Total technical income		95,646.8	83,601.5
Claims paid:			
Gross amount	12	(52,231.7)	(38,505.4)
Reinsurers' share	12	10,129.5	6,521.5
Net claims paid		(42,102.2)	(31,983.9)
Change in the provision for claims:			
Gross amount		(18,103.9)	(37,562.9)
Reinsurers' share		(7,013.9)	(4,502.8)
Net change in the provision for claims		(25,117.8)	(42,065.7)
Claims incurred, net of reinsurance	12	(67,220.0)	(74,049.6)
Net operating expenses	5	(37,721.4)	(31,981.6)
Total technical charges		(104,941.4)	(106,031.2)
Balance on the technical account for general business		(9,294.6)	(22,429.7)

The accompanying notes are an integral part of these accounts.

Income Statement

Non - Technical Account for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Balance on the technical account for general business		(9,294.6)	(22,429.7)
Investment income		1,125.3	481.9
Unrealised gains on investments		4.2	43.2
Realised gains / (losses) on investments		332.6	(4.5)
Investment management charges		(6.5)	(3.7)
Net investment return	8	1,455.6	516.9
Allocated investment return transferred to general business technical account	8	(1,455.6)	(516.9)
(Loss)/Profit on exchange		(852.2)	249.5
Result for the financial year		(10,146.8)	(22,180.2)

Statement of Comprehensive Income

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Result for the financial year		(10,146.8)	(22,180.2)
Currency translation differences		2,109.9	(2,345.4)
Total comprehensive income for the financial year		(8,036.9)	(24,525.6)

The accompanying notes are an integral part of these accounts.

Statement of Changes in Members' Balances

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Members' balances as at 1 January		(44,944.2)	(20,418.6)
Total comprehensive income for the financial year		(8,036.9)	(24,525.6)
Members' balances carried forward at 31 December		(52,981.1)	(44,944.2)

The Members' balances relate entirely to Underwriting participation.

The accompanying notes are an integral part of these accounts.

Statement of Financial Position

Assets

as at 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Investments:			
Financial investments	10	50,125.1	39,021.0
		50,125.1	39,021.0
Reinsurers' share of technical provisions:			
Provision for unearned premium	11	1,664.7	909.5
Claims outstanding	12	11,740.5	19,244.1
		13,405.2	20,153.6
Debtors:			
Debtors due within one year:			
Debtors arising out of direct insurance operations		24,991.8	20,002.9
Debtors arising out of reinsurance operations		13,639.2	17,063.2
Other debtors	18	34,647.2	258.1
Debtors due after one year:			
Debtors arising out of direct insurance operations		0.3	3.2
Debtors arising out of reinsurance operations		-	-
		73,278.5	37,327.4
Other assets:			
Cash at bank and in hand	13	646.5	2,374.0
Other	14	8,008.2	4,483.4
		8,654.7	6,857.4
Prepayments and accrued income:			
Deferred acquisition costs	15	10,916.5	11,078.0
Prepayments and accrued income:		11.4	52.0
		10,927.9	11,130.0
Total assets		156,391.4	114,489.4

Statement of Financial Position

Liabilities

as at 31 December 2019

	Note	2019 £'000	2018 £'000
Members' balances and liabilities			
Members' balances		(52,981.1)	(44,944.2)
		(52,981.1)	(44,944.2)
Technical provisions:			
Provision for unearned premium	11	43,556.1	43,503.9
Claims outstanding	12	108,529.3	93,956.6
		152,085.4	137,460.5
Creditors:			
Creditors arising out of direct insurance operations	16	193.9	34.1
Creditors arising out of reinsurance operations		6,505.3	4,424.0
Amounts due to credit institutions	17	9,058.3	10,992.5
Other creditors	18	33,901.9	-
		49,659.4	15,450.6
Accruals and deferred income		7,627.7	6,522.5
Total liabilities		209,372.5	159,433.6
Total members' balances and liabilities		156,391.4	114,489.4

The accompanying notes are an integral part of these accounts.

The annual accounts on pages 12 to 44 were approved by the Board of Brit Syndicates Limited on 03 March 2020 and signed on its behalf by:

Matthew Wilson
Chief Executive Officer

Mark Allan
Chief Financial Officer

Statement of Cash Flows
for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Result for the financial year		(10,146.8)	(22,180.2)
Movement in gross unearned premiums and outstanding claims		19,608.7	52,626.9
Movement in reinsurers' share of unearned premiums and outstanding claims		6,197.4	4,686.7
Increase in debtors		(38,651.7)	(18,944.2)
Increase in creditors		36,093.0	12,774.8
Movement in other assets/liabilities		(3,550.5)	(1,515.7)
Foreign exchange on operating activities		1,187.6	333.8
Investment return		(1,455.6)	(516.9)
Net cash flows from operating activities		9,282.1	27,265.2
Cash flows from investing activities			
Purchase of equity and debt instruments		(255,621.7)	(24,031.9)
Sale of equity and debt instruments		236,567.8	-
Investment income received		1,451.4	473.6
Net cash flows (used in) / from investing activities		(17,602.5)	(23,558.3)
Cash flows from financing activities			
Movement in non-standard personal expenses		-	(205.2)
Net cash flows (used in) / from financing activities		-	(205.2)
Net (decrease)/increase in cash and cash equivalents		(8,320.4)	3,501.7
Cash and cash equivalents at 1 January		17,317.7	13,418.8
Foreign exchange on cash and cash equivalents		(1,181.8)	397.2
Cash and cash equivalents at 31 December	13	7,815.5	17,317.7

Notes to the Accounts

for the year ended 31 December 2019

1 Accounting policies, statement of compliance and basis of preparation

1.1 Statement of compliance and basis of preparation

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being the applicable UK GAAP accounting standards, and in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (The Regulations 2008), and where appropriate the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (The Regulations) relating to insurance companies.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

The financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The annual basis of accounting has been applied to all classes of business written by the Syndicate.

The Directors of the Managing Agent have prepared the annual accounts on the going concern basis that the Syndicate will continue to write future business. The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities.

The financial statements are reported in Sterling, which is the presentational currency of the Syndicate, and rounded to the nearest £'000, unless otherwise stated. The functional currency of the Syndicate is the United States dollar (US\$).

1.2 Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

1.3 Significant accounting policies

1.3.1 Insurance contracts

The results for all classes of business have been determined on an annual basis, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premium written, net of reinsurance, as follows:

a. Premiums

Premiums written relate to business incepted during the year and include estimates of premiums due but not yet received or notified, less an allowance for cancellations. Premiums are accreted to the Technical Account on a pro rata basis over the term of the related policy, except for those contracts where the period of the risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are accreted to the Technical Account on a pro rata basis over the term of the original policy to which it relates. Premiums are stated gross of commissions, but net of premium taxes and other duties levied on premiums.

b. Profit commissions

Income arising from whole account quota share contracts is recognised when the economic benefits are highly probable.

Notes to the Accounts

for the year ended 31 December 2019

1 Accounting policies, statement of compliance and basis of preparation (continued)

c. Deferred acquisitions costs

Commission and other acquisition costs incurred during the financial period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.

d. Claims

Claims incurred comprise claims and claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any adjustments to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

Claims outstanding represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the date of the statement of financial position, including IBNR, less any amounts paid in respect of those claims.

Claims provisions have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims IBNR.

While the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in income statement for the period in which the adjustments are made.

e. Provision for unearned premiums

The proportion of written premiums that relate to unexpired terms of policies in force at the date of the statement of financial position is deferred as a provision for unearned premiums, generally calculated on a time apportioned basis. The movement in the provision is taken to the Technical Account in order that revenue is recognised over the period of the risk.

f. Unexpired risks provision

Provision is made for any deficiencies arising when unearned premiums, net of related deferred acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision. The expected claims are calculated having regard to events that are relevant to the provision at the date of the statement of financial position.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. At 31 December 2019, the Syndicate did not have an unexpired risks provision (2018: £nil)

g. Reinsurance

The Syndicate assumes and cedes reinsurance in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the income statement along the same basis as direct business, taking into account the product classification. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are included in the respective expense and income accounts. Reinsurance outwards premiums are earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are expensed on the same basis as the inwards business being protected. Reinstatement premiums on both inwards and outwards business are accreted to the Technical Account on a pro rata basis over the term of the original policy to which they relate.

Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts recoverable from reinsurers are calculated

Notes to the Accounts

for the year ended 31 December 2019

1 Accounting policies, statement of compliance and basis of preparation (continued)

with reference to the claims liability associated with the reinsured risks. Revenues and expenses arising from reinsurance agreements are therefore recognised with the underlying risk of the business reinsured.

Gains or losses on buying reinsurance are recognised immediately in the Technical Account and not subject to amortisation.

If a reinsurance asset is impaired, the Syndicate reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the Technical Account. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of that asset, that the Syndicate may not receive all amounts due to it under the terms of the contract, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer.

h. Expenses and other income receivable

The Managing Agent has charged the Syndicate a fixed fee and has borne all the management expenses of the Syndicate, other than those related to the direct cost of underwriting and investment management charges. Investment management charges are netted off against investment return as disclosed in note 8. Any internal or external claims adjustment or settlement costs are included within gross claims paid.

The Managing Agent also charges the Syndicate profit commission equal to a fixed percentage of profit for each year of account. An accrual is recognised as and when the year of account becomes profitable, with payment crystallising on closure of the year of account after three years. No such profit commission was charged or accrued for in the calendar year to 31 December 2019 (2018: £nil).

i. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Fair value is normally determined by reference to the fair value of the proceeds received. Any difference between the initial carrying amount and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest rate method.

1.3.2 Investments

a. Financial investments

The Syndicate has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL). This is in accordance with the Syndicate's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Directors of the Managing Agent and management personnel on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (which are the principal markets or the most advantageous markets that maximise the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability) is based on quoted market bid and ask price for both financial assets and financial liabilities respectively.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques which include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Gains and losses on investments designated as FVTPL are recognised through the income statement.

b. Investment return

Investment return comprises all investment income, interest receivable, realised and unrealised investment gains and losses, dividend income and overseas deposit income.

Notes to the Accounts

for the year ended 31 December 2019

1 Accounting policies, statement of compliance and basis of preparation (continued)

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses on investments represent the difference between the valuation at the date of the statement of financial position and their valuation at the previous statement of financial position, or purchase price if acquired during the year, 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. All investment return is considered to arise on such funds.

1.3.3 Measurement of other financial assets and financial liabilities

Other financial assets and financial liabilities are initially recognised at transaction price and subsequently measured at amortised cost using the effective interest rate method.

1.3.4 Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Syndicate becomes a party to the contractual provisions of the contract. A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition under a combination of risks and rewards and control tests.

A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

All 'regular way purchases and sales' of financial assets are recognised on the trade date, i.e. the date that the Syndicate commits to purchase or sell the asset. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

If the carrying value of an asset is impaired, it is reduced to the recoverable amount by an immediate charge in the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.3.5 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 or their Members' Agents 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.

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

1.3.6 Pension costs

Brit Group Services Limited operates a defined contribution pension scheme on behalf of the Managing Agent. Contributions are charged to the Syndicate within the fixed fee.

1.3.7 Foreign currencies

In accordance with FRS102, the functional currency is the currency of the primary economic environment in which the Syndicate operates. The functional currency for Syndicate 2988 is the US dollar. The annual accounts are presented in Sterling. Foreign exchange resulting from translating balances from the functional currency to the presentational currency is reported in other comprehensive income.

Notes to the Accounts

for the year ended 31 December 2019

1 Accounting policies, statement of compliance and basis of preparation (continued)

Unless otherwise stated, transactions in Sterling, Canadian dollars and Euros are translated into the functional currency at average rates of exchange. Transactions in foreign currencies other than Sterling, US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities in currencies other than the functional currency are translated at the rate of exchange ruling at 31 December of each year. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Syndicate insurance operations are included within the Non-Technical account as prescribed by FRS 103.

1.3.8 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

2 Critical accounting judgements and key sources of estimation uncertainty

Various assumptions are made that affect the reported amounts of assets and liabilities. Estimates and judgements are regularly re-evaluated and are based on a combination of historical experience and other factors, including exposure analysis, expectations of future experience and expert judgement.

2.1 Insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Syndicate will ultimately pay to settle such claims. Significant areas requiring estimation and judgement include:

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims (IBNR) to be included within provisions for inwards insurance and reinsurance contracts;
- The corresponding estimate of the amount of outwards reinsurance recoveries which will become due as a result of the estimated claims on inwards business;
- The recoverability of amounts due from reinsurers; and
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

The assumptions used and the manner in which these estimates and judgements are made are set out below, including the reserving process for the estimation of gross, and net of reinsurance, ultimate premiums and claims:

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). Given the early stage of development for the Syndicate, these methods have typically relied on benchmark information e.g. from similar business written by BSL into Syndicate 2987;
- In the event of catastrophe losses, and prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised modelling software and detailed reviews of contracts exposed to the event in question.

The estimates and judgements are applied in line with the overall reserving philosophy and seek to state the claims provisions on a best estimate, undiscounted basis. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position.

In addition to claims provisions, the reserve for future loss adjustment expenses is also subject to estimation with consideration being given to the level of internal and third party loss adjustment expenses incurred annually. The estimated loss adjustment expenses are expressed as a percentage of gross claims reserves and the reasonableness of the estimate is assessed through benchmarking. Further judgements are made as to the

Notes to the Accounts

for the year ended 31 December 2019

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

recoverability of amounts due from reinsurers. Provisions for bad debts are made specifically, based on the solvency of reinsurers, internal and external ratings, payment experience with them and any disputes of which the Syndicate is aware.

2.2 Pipeline premium

Written premiums include pipeline premium of £28,463.2k (2018: £25,500.4k) which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on actuarial estimates which are benchmarked against the results of standard actuarial projection techniques to assess reasonableness.

2.3 Fair value of financial assets determined using valuation techniques

Financial investments are carried in the statement of financial position at fair value. Determining the fair value of certain investments requires estimation techniques, using designated methodologies, estimations and assumptions.

The Syndicate values investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the statement of financial position, represent the majority of the invested assets. The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with UK GAAP.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); the lowest priority to unobservable inputs that reflect the assumptions that the Syndicate considers market participants would normally use (level three). To the extent that valuations is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement and accordingly, those instruments included in level three will require a greater degree of judgement to be exercised during valuation than for those included in level two or level one.

The measurement basis for assets carried at fair value is categorised into a fair value hierarchy, details of these methods and assumptions are described in note 10.

3 Principal risks and uncertainties

3.1 Insurance risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when an insurance product was designed and priced. The actual performance of insurance contracts is subject to the inherent uncertainty in the occurrence, timing and amount of the final insurance liabilities. This is the principal risk the Syndicate is exposed to as its primary function is to underwrite insurance contracts. The risk arises due to the possibility of insurance contracts being under-priced, under-reserved or subject to unforeseen catastrophe claims.

The areas of insurance risk discussed below include: underwriting (including aggregate exposure management), reinsurance and reserving.

a. Underwriting risk

This is the risk that the insurance premiums will not be sufficient to cover the future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process by the Syndicate because of unpredictable events.

The Syndicate is also exposed to the risks resulting from its underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. Although premium rates have risen over the last two years, this follows several years of downwards pressure on premium rates and therefore this risk is considered to be high in the current underwriting environment.

Notes to the Accounts

for the year ended 31 December 2019

3 Principal risks and uncertainties (continued)

This trend in premium rates has been factored into the Syndicate's pricing models and risk management tools and is continually monitored to assess whether any corrective action is required. Additional controls over the underwriting strategy as described in the section below.

The Syndicate writes all of its business through Lloyd's and therefore can take advantage of Lloyd's centralised infrastructure and service support. Lloyd's also has an established global distribution framework, with extensive licensing agreements providing the Syndicate access to over 200 territories. Exclusively using the Lloyd's platform subjects the Syndicate to a number of resulting underwriting risks.

(i) Controls over underwriting strategy

The BSL Board sets the Syndicate's underwriting strategy for accepting and managing underwriting risk. The Underwriting Committee, chaired by the Chief Underwriting Officer, meets regularly to drive the underwriting strategy and to monitor performance against the plans. The assessment of underwriting performance is wide ranging and involves, for example, applying underwriting KPIs, technical pricing management information (MI), premium monitoring, delegated underwriting operations and claims. The risks are managed by the committee in line with the underwriting risk policy and within the risk tolerance set by the Board. The underwriting risk policy also sets out a number of controls, which are summarised below:

The Managing Agent carries out a detailed annual business planning process for each of the Syndicate's underwriting units. The resulting plans set out premium, territorial and aggregate limits and reinsurance protection thresholds for all classes of business and represent a key tool in managing concentration risk. Performance against the plans is monitored on a regular basis by the Underwriting Committee as well as by the Board. A dedicated Risk Aggregation team also performs analysis including realistic disaster scenarios (RDS) on a regular basis to ensure that the Syndicate's net losses remain within its risk appetite.

The Managing Agent has developed underwriting guidelines, limits of authority and business plans for the Syndicate which are binding upon all staff authorised to underwrite. These are detailed and specific to underwriters and classes of business. Gross and net line size limits are in place for each class of business with additional restrictions in place on catastrophe exposed business.

A proportion of the Syndicate's insurance risks are written by third parties under delegated underwriting authorities, with the remaining being written through individual risk acceptances or through reinsurance treaties. The third parties are closely vetted in advance and are subject to tight reporting requirements. In addition, the performance of these contracts is closely monitored by underwriters and other departments with regular audits being carried out.

The technical pricing framework ensures that the pricing process in the Syndicate is appropriate. It ensures pricing methodologies are demonstrable and transparent and that technical (or benchmark) prices are assessed for each risk. The underwriting and actuarial functions work together to maintain the pricing models and assess the difference between technical price and actual price. The framework also ensures that sufficient data is recorded and checked by underwriters to enable the Syndicate to maintain an effective rate monitoring process.

Compliance is checked through both a peer review process and, periodically, by the Managing Agent's Internal Audit department which is entirely independent of the underwriting units.

In order to limit risk, the number of reinstatements per policy generally is limited, deductibles are imposed, and policy exclusions are applied.

(ii) Underwriting risk profile

The core insurance portfolio of property, marine and casualty (including liability), covers a variety of largely uncorrelated events and also provides some protection against the underwriting cycle as different classes are at different points in the underwriting cycle. The underwriting portfolio is managed to target top quartile underwriting performance and the mix of business is continually adjusted based on the current environment (including the current pricing strength of each class). This assessment is conducted as part of the business planning and strategy process which operates annually and uses inputs from the technical pricing framework. The business plan is approved by the BSL Board and is monitored monthly by management.

Notes to the Accounts

for the year ended 31 December 2019

3 Principal risks and uncertainties (continued)

(iii) Geographical concentration of premium

The Syndicate enters into policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Syndicate to benefit from a wide geographic diversification of risk. The principal location of the Syndicate's policyholders is the United States. The concentration of insurance premium before and after reinsurance by the location of the underlying risk is summarised below:

Premiums written	Gross	Net
2019	£'000	£'000
United States	56,505.8	44,399.1
United Kingdom	6,093.9	5,677.2
Europe (excluding UK)	1,582.0	1,515.9
Other (including worldwide)	46,169.4	43,287.3
Total	110,351.1	94,879.5

	Gross	Net
2018	£'000	£'000
United States	44,956.9	39,992.5
United Kingdom	3,928.4	3,705.3
Europe (excluding UK)	1,188.3	1,029.7
Other (including worldwide)	56,459.9	53,605.0
Total	106,533.5	98,332.5

(iv) Portfolio mix

The Syndicate's breakdown of gross premiums written by principal categories is summarised below:

Gross premium written	2019		2018		
	£'000	%	£'000	%	
Short-Tail Direct insurance	Property, Political Risks and Violence, Property Facilities, Marine, Aviation (Space), Accident & Health	51,542.6	47%	63,637.7	60%
Long-Tail Direct insurance	Professional Lines, Specialty Lines, Specialist Liability	25,261.9	23%	15,576.0	15%
BGSU US Specialty	BGSU Casualty, BGSU Property	7,148.9	6%	10,431.3	10%
Short-Tail Reinsurance	Property Treaty	15,295.8	14%	14,226.9	13%
Long-Tail Reinsurance	Casualty Treaty	4,930.0	4%	2,661.6	2%
Discontinued	Engineering & CPE, Yacht, BGSU Latam	6,171.9	6%	-	-
Total		110,351.1	100%	106,533.5	100%

The Syndicate underwrites a business mix of both insurance and reinsurance, long and short tailed business across a number of geographic areas which results in a diversification of the Syndicate's portfolio. Delegated underwriting represents approximately 42.2% of the portfolio as at December 2019 (2018: 39.6%).

Notes to the Accounts

for the year ended 31 December 2019

3 Principal risks and uncertainties (continued)

(v) Aggregate exposure management

The Syndicate is exposed to potential large claims from natural catastrophe events. The catastrophe risk tolerances are defined by Syndicate 2988's risk appetite framework. These are reviewed and set by the Board on an annual basis.

For example, the Syndicate, has a tolerance of 50% of Syndicate 2988's Economic Capital Assessment for major catastrophe events (as defined by World Wide All Perils 1-in-30 Aggregate Exceedance Probability (AEP)). This equates to a maximum acceptable 1-in-30 AEP modelled loss (after all reinsurance) of £49.1m as at 31 December 2019. This is in addition to other tolerances set within the catastrophe risk appetite framework.

The Syndicate closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Analysis and monitoring also measures the effectiveness of the Syndicate's reinsurance programmes. Stress and scenario tests are also run, such as Lloyd's and internally developed RDS. Below are the key RDS losses to the Syndicate for all classes combined (unaudited):

Lloyd's Prescribed RDS Event £m	Estimated Industry Loss	Modelled Syndicate Loss		Modelled Syndicate Loss	
		2019(i)		2018(i)	
		Gross	Net	Gross	Net
Gulf of Mexico Windstorm	84,091	62	24	65	26
Florida Miami Windstorm	99,242	78	25	96	26
US North East Windstorm	61,364	59	25	61	27
San Francisco Earthquake	60,606	84	26	75	25
Japan Earthquake	55,583	12	12	9	9
Japan Windstorm	11,811	5	5	1	1
European Windstorm	20,339	3	3	5	5

(i): At 31 December 2019 foreign exchange rates.

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be non-modelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

(vi) Sensitivity to changes in net claims ratio

The Syndicate result for the financial year is sensitive to an independent 1% change in the net claims ratio by class of business as follows:

Change in reported result by category of business	2019		2018	
	£'000	%	£'000	%
Short-Tail Direct insurance	383.0	40%	505.6	62%
Long-Tail Direct insurance	254.1	27%	118.5	14%
BGSU US Specialty	63.7	7%	86.0	10%
Short-Tail Reinsurance	102.7	11%	102.7	12%
Long-Tail Reinsurance	36.6	4%	18.0	2%
Discontinued	101.8	11%	-	-
Total	941.9	100%	830.8	100%

The impact on the members' balances would be the same as that on the result following a change in the net claims ratio.

Notes to the Accounts

for the year ended 31 December 2019

3 Principal risks and uncertainties (continued)

b. Reinsurance risk

The Syndicate purchases reinsurance to manage exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Syndicate to mitigate exposure to insurance losses against the risk appetite, reduce volatility of reported results and protect capital.

The Syndicate may use the following types of reinsurance to protect itself from severe size or frequency of losses:

- (i) Facultative reinsurance may be used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.
- (ii) Risk excess of loss reinsurance may be used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Syndicate's risk appetite during the business planning exercise.
- (iii) Aggregate catastrophe excess of loss cover to protect the Syndicate against combined property claims from multiple policies resulting from catastrophe events.

Given the fundamental importance of reinsurance protection to the Syndicate's risk management, the Managing Agent has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain our ability to meet policyholder obligations. The Outwards Reinsurance Committee oversees the placement of reinsurance protections.

The Syndicate remains exposed to a number of risks relating to its reinsurance programme:

- It is possible for extremely severe catastrophe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Syndicate.
- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.
- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.

These risks are managed through a combination of techniques and controls including risk aggregation management, capital modelling and internal actuarial review of outward reinsurance costs. The counterparty risk in relation to reinsurance purchased is managed by the Credit Committee. This is further discussed in the Credit risk section below.

c. Reserving risk

Reserving risk arises where the actual cost of losses for policyholder obligations incurred before 31 December 2019 may differ from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Syndicate as the reserves for unpaid losses represent the largest component of the Syndicate's liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of the Syndicate's reserving risk.

The Syndicate has a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The reserving process starts with controls over claims data which ensure complete and accurate recording of all paid and notified claims. Claims adjusters validate policy terms and conditions, adjust claims and investigate suspicious or disputed claims in accordance with the Syndicate's claims policy. Case reserves are set for notified claims using the experience of specialist claims adjusters, underwriters and external experts where necessary.

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial projection techniques are employed by the Syndicate's experienced actuaries to establish the IBNR reserve.

Notes to the Accounts

for the year ended 31 December 2019

3 Principal risks and uncertainties (continued)

These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such as underwriting, claims and risk aggregation to ensure that they have a full understanding of the emerging claims experience across the Syndicate. Given the early stage of development for the Syndicate, Chain Ladder methods have typically not been used.

The Syndicate's reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to sign-off by the Reserving Committee, as part of the formal governance arrangements for the Syndicate. The estimate agreed by the committee is used as a basis for the Syndicate financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. This margin increases the reserves reflected in the Syndicate financial statements above the mean expectation. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off. As part of their audit engagement, reserves are subject to external actuarial review by the Syndicate's auditors.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Syndicate but typically is highest for those classes where there are longer delays in the settlement of the final claim amount. The issues contributing to this heightened uncertainty are common to all entities which write such business.

3.2 Liquidity risk

This is the risk the Syndicate may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Syndicate faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Managing Agent monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Syndicate has in place specific credit facilities available in the event of any liquidity issues. Typically these will be used prior to the potential of making a call on Members' FAL.

The table below presents the undiscounted value of monetary liabilities of the Syndicate into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates.

As at 31 December 2019	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Liabilities (undiscounted values)	£'000	£'000	£'000	£'000	£'000
Claims outstanding	45,589.8	34,177.3	15,282.8	13,479.4	108,529.3
Creditors	48,228.8	-	-	-	48,228.8
Borrowings	9,058.3	-	-	-	9,058.3
Total	102,876.9	34,177.3	15,282.8	13,479.4	165,816.4

As at 31 December 2018	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Liabilities (undiscounted values)	£'000	£'000	£'000	£'000	£'000
Claims outstanding	44,105.7	32,359.7	10,103.0	7,388.2	93,956.6
Creditors	10,980.6	-	-	-	10,980.6
Borrowings	10,992.5	-	-	-	10,992.5
Total	66,078.8	32,359.7	10,103.0	7,388.2	115,929.7

Notes to the Accounts

for the year ended 31 December 2019

3 Principal risks and uncertainties (continued)

3.3 Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main sources of credit risk relate to:

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by the Syndicate;
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of the Syndicate;
- Investments: through the issuer default of all or part of the value of a financial instrument; and
- Cash and cash equivalents: through the default of the banks holding the cash and cash equivalents.

The insurance and non-insurance related counterparty credit risks are managed separately by the Syndicate.

a. Investments credit risk

(i) Investment credit risk management process

The Investment Committee is responsible for the management of investment credit risk. The Investment Guidelines and Investment Policy set out clear limits and controls around the level of investment credit risk. The Syndicate has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Syndicate's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through monitoring of the aggregate investment risk limits.

(ii) Investment credit risk profile

The summary of the investment credit risk exposures for the Syndicate is set out in the tables below:

£'000	AAA	AA	A	BBB	BB or less	Not Rated	Total
As at 31 December 2019							
Shares and other variable yield securities	288.3	5,994.4	631.8	-	-	651.2	7,565.7
Debt securities	42,559.4	-	-	-	-	-	42,559.4
Overseas deposits	4,626.5	1,239.1	1,052.8	648.6	441.2	-	8,008.2
Cash at bank and in hand	-	-	-	640.7	-	5.8	646.5
Total	47,474.2	7,233.5	1,684.6	1,289.3	441.2	657.0	58,779.8

£'000	AAA	AA	A	BBB	BB or less	Not Rated	Total
As at 31 December 2018							
Shares and other variable yield securities	2,707.2	7,796.1	4,440.4	-	-	-	14,943.7
Debt securities	24,077.3	-	-	-	-	-	24,077.3
Overseas deposits	2,520.6	671.3	795.7	440.1	18.4	37.3	4,483.4
Cash at bank and in hand	-	-	173.7	2,200.3	-	-	2,374.0
Total	29,305.1	8,467.4	5,409.8	2,640.4	18.4	37.3	45,878.4

Notes to the Accounts

for the year ended 31 December 2019

3 Principal risks and uncertainties (continued)

b. Insurance credit risk

(i) Insurance credit risk management process

The Credit Committee, chaired by the Brit Group Chief Financial Officer, is responsible for the management of credit risk arising from insurance activities.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral, and have been approved for use by the Credit Committee. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current statement of financial position exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against the management risk appetite limits set by the Credit Committee. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk tolerance and/or appetite are reported to the Risk Oversight Committee and the Board on at least a quarterly basis.

(ii) Insurance credit risk profile

The summary of the insurance credit risk exposures for the Syndicate is set out in the table below:

£'000	AAA	AA	A	BBB	BB or less	Collateral	Total
As at 31 December 2019							
Reinsurers' share of claims outstanding	-	5,786.7	1,685.3	-	-	4,268.5	11,740.5
Debtors arising out of reinsurance operations	-	112.4	0.3	-	-	13,526.5	13,639.2
Total	-	5,899.1	1,685.6	-	-	17,795.0	25,379.7

£'000	AAA	AA	A	BBB	BB or less	Collateral	Total
As at 31 December 2018							
Reinsurers' share of claims outstanding	-	-	11,376.7	-	-	7,867.4	19,244.1
Debtors arising out of reinsurance operations	-	-	2,799.0	-	-	14,264.2	17,063.2
Total	-	-	14,175.7	-	-	22,131.6	36,307.3

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Syndicate in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Syndicate in a timely manner).

Collateral of £37,365.2k (2018: £42,329.6k) is held in third party trust accounts or as a letter of credit ('LOC') to guarantee Syndicate 2988 against reinsurance counterparties and is available for immediate drawdown in the

Notes to the Accounts

for the year ended 31 December 2019

3 Principal risks and uncertainties (continued)

event of a default. As at 31 December 2019, £4,268.5k (2018: £7,867.4k) of reinsurers claims were protected by cash and cash equivalents held in third party trust accounts or by LOC's.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

£'000	Neither past due nor impaired	Past due	Impaired	Total
As at 31 December 2019				
Shares and other variable yield securities	7,565.7	-	-	7,565.7
Debt securities	42,559.4	-	-	42,559.4
Overseas deposits	8,008.2	-	-	8,008.2
Reinsurer's share of claims outstanding	11,740.5	-	-	11,740.5
Debtors arising out of direct insurance operations	24,992.1	-	-	24,992.1
Other assets	60,879.0	-	-	60,879.0
Cash at bank and in hand	646.5	-	-	646.5
Total	156,391.4	-	-	156,391.4

£'000	Neither past due nor impaired	Past due	Impaired	Total
As at 31 December 2018				
Shares and other variable yield securities	14,943.7	-	-	14,943.7
Debt securities	24,077.3	-	-	24,077.3
Overseas deposits	4,483.4	-	-	4,483.4
Reinsurer's share of claims outstanding	19,244.1	-	-	19,244.1
Debtors arising out of direct insurance operations	20,006.1	-	-	20,006.1
Other assets	29,360.8	-	-	29,360.8
Cash at bank and in hand	2,374.0	-	-	2,374.0
Total	114,489.4	-	-	114,489.4

3.4 Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

Notes to the Accounts

for the year ended 31 December 2019

3 Principal risks and uncertainties (continued)

a. Currency risk

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Syndicate. The split of assets and liabilities for each of the Syndicate's main currencies is set out in the tables below:

Converted £'000	UK £	US \$	CAD \$	EUR €	Total
As at 31 December 2019					
Total assets	(3,583.6)	144,603.6	9,986.0	5,385.4	156,391.4
Total liabilities	(28,569.2)	(167,075.0)	(8,225.5)	(5,502.8)	(209,372.5)
Net assets/ (liabilities) excluding the effect of currency adjustments	(32,152.8)	(22,471.4)	1,760.5	(117.4)	(52,981.1)
Adjustment for foreign exchange purchases and sales	8,010.9	(3,541.0)	(2,349.7)	(2,120.2)	-
Adjusted net assets/ (liabilities)	(24,141.9)	(26,012.4)	(589.2)	(2,237.6)	(52,981.1)
As at 31 December 2018					
Total assets	5,375.4	100,702.5	4,626.2	3,785.3	114,489.4
Total liabilities	(22,615.0)	(129,695.1)	(3,828.6)	(3,294.9)	(159,433.6)
Net assets/ (liabilities) excluding the effect of currency adjustments	(17,239.6)	(28,992.6)	797.6	490.4	(44,944.2)
Adjustment for foreign exchange purchases and sales	9,782.8	(11,340.4)	2,414.5	(856.9)	-
Adjusted net assets/ (liabilities)	(7,456.8)	(40,333.0)	3,212.1	(366.5)	(44,944.2)

In the above table, non-core currencies are shown in Sterling.

The non-Sterling denominated net assets of the Syndicate may lead to profit or losses (depending on the mix relative to the liabilities), should Sterling vary relative to these currencies.

The Syndicate manages its exposure in each of the main currencies and the net asset position is rebalanced periodically. Where mismatches occur these may lead to foreign exchange gains and losses reported through the income statement.

b. Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on the result of a percentage movement in the relative strength of Sterling against the value of the US dollar, Canadian dollar and Euro simultaneously:

£'000	2019	2018
Impact on the result before tax and net assets		
GBP weakens		
10% against other currencies	(2,883.9)	(3,748.7)
20% against other currencies	(5,767.8)	(7,497.5)
GBP strengthens		
10% against other currencies	2,883.9	3,748.7
20% against other currencies	5,767.8	7,497.5

Notes to the Accounts

for the year ended 31 December 2019

3 Principal risks and uncertainties (continued)

c. Interest rate risk and price risk

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Syndicate is exposed to interest rate risk through its investment portfolio, borrowings and cash and cash equivalents. The sensitivity of the price of these financial exposures is indicated by their respective durations. This is defined as the modified duration which is the change in the price of the security subject to a 100 basis points parallel shift in interest rates. The greater the duration of a security, the greater the possible price volatility.

The banded durations of the Syndicate's financial instruments and cash and cash equivalents sensitive to interest-rate risk are shown in the table below:

As at 31 December 2019	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
Assets (fair values)	£,000	£,000	£,000	£,000	£,000	£,000
Shares and other variable yield securities and unit trusts	7,169.1	-	-	-	396.6	7,565.7
Debt securities	8,708.6	33,850.8	-	-	-	42,559.4
Overseas deposits as investments	2,192.1	4,591.8	1,113.1	111.2	-	8,008.2
Cash at bank and in hand	646.5	-	-	-	-	646.5
Total	18,716.3	38,442.6	1,113.1	111.2	396.6	58,779.8

As at 31 December 2018	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
Assets (fair values)	£,000	£,000	£,000	£,000	£,000	£,000
Shares and other variable yield securities and unit trusts	14,943.7	-	-	-	-	14,943.7
Debt securities	24,077.3	-	-	-	-	24,077.3
Overseas deposits as investments	1,267.5	2,594.1	581.1	40.7	-	4,483.4
Cash at bank and in hand	2,374.0	-	-	-	-	2,374.0
Total	42,662.5	2,594.1	581.1	40.7	-	45,878.4

The Syndicate takes into account the duration of its required capital, targeting an investment portfolio duration that, under a variation in interest rates, preserves the solvency ratio of the Syndicate. The duration of the investment portfolio is then set within an allowable range relative to the targeted duration.

Insurance liabilities are measured on an undiscounted basis and therefore are not sensitive to changes in interest rates.

d. Sensitivity to changes in investment yields

The sensitivity of the result and net assets to changes in the investment yields is set out in the table below.

£'000	Impact on result for financial year	
	2019	2018
Increase		
25 basis points	(85.4)	(0.1)
50 basis points	(170.8)	(0.1)
100 basis points	(341.5)	(0.2)
Decrease		
25 basis points	85.4	0.1
50 basis points	170.8	0.1
100 basis points	341.5	0.2

Notes to the Accounts

for the year ended 31 December 2019

3.5 Capital risk management

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II framework.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2988 is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR to ultimate). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates, but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR to ultimate. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applying for 2019 was 35% of the member's SCR to ultimate.

Provision of capital by members

The Syndicate is comprised of a number of underwriting members of Lloyd's. As such, each member is only liable for its own share of liabilities on the Syndicate. Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates.

Funds in syndicate are not applicable to Syndicate 2988, as participants' capital is held at member level. Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 16, are taken into account when determining the members' Lloyd's capital requirements.

Notes to the Accounts

for the year ended 31 December 2019

4 Analysis of underwriting result

An analysis of the underwriting result before investment return is set out below:

Year ended 31 December 2019	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct Insurance:						
Accident and health	2,028.8	1,840.6	(1,130.8)	(855.5)	-	(145.7)
Marine aviation and transport	9,182.8	13,404.3	(9,905.9)	(4,251.8)	(149.2)	(902.6)
Fire and other damage to property	33,374.8	32,779.8	(18,555.7)	(13,491.1)	(7,493.5)	(6,760.5)
Third party liability	21,629.2	18,533.9	(12,670.5)	(6,356.5)	83.3	(409.8)
Credit and suretyship	3,263.9	2,421.2	(1,083.8)	(659.6)	7.3	685.1
Total Direct Insurance	69,479.5	68,979.8	(43,346.7)	(25,614.5)	(7,552.1)	(7,533.5)
Reinsurance	40,871.6	39,866.5	(26,988.9)	(12,106.9)	(3,987.4)	(3,216.7)
Total	110,351.1	108,846.3	(70,335.6)	(37,721.4)	(11,539.5)	(10,750.2)

Year ended 31 December 2018	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct Insurance:						
Accident and health	1,997.0	1,469.1	(872.8)	(574.4)	-	21.9
Marine aviation and transport	17,960.4	15,397.7	(14,440.6)	(5,610.8)	(228.1)	(4,881.8)
Fire and other damage to property	29,421.9	24,399.9	(22,876.9)	(9,467.2)	(2,196.2)	(10,140.4)
Third party liability	14,303.6	11,540.1	(6,759.3)	(4,342.8)	(122.5)	315.5
Credit and suretyship	2,374.1	1,610.5	(972.0)	(587.1)	(18.3)	33.1
Total Direct Insurance	66,057.0	54,417.3	(45,921.6)	(20,582.3)	(2,565.1)	(14,651.7)
Reinsurance	40,476.5	37,052.2	(30,146.7)	(11,399.3)	(3,801.1)	(8,294.9)
Total	106,533.5	91,469.5	(76,068.3)	(31,981.6)	(6,366.2)	(22,946.6)

Commissions on direct insurance gross premiums written during 2019 were £17,612.8k (2018: £16,627.4k).

All premiums were concluded in the UK. The geographical analysis of premiums by the location of the underlying risk is as follows:

	2019 £'000	2018 £'000
United States	56,505.8	44,956.9
United Kingdom	6,093.9	3,928.4
Europe (excluding UK)	1,582.0	1,188.3
Other (including worldwide)	46,169.4	56,459.9
Total	110,351.1	106,533.5

Notes to the Accounts

for the year ended 31 December 2019

5 Net operating expenses

	2019	2018
	£'000	£'000
Acquisition costs	25,273.3	24,177.8
Change in deferred acquisition costs	(170.3)	(3,926.1)
Administrative expenses	12,618.4	11,729.9
Total	37,721.4	31,981.6

Members' standard personal expenses of £1,989.9k (2018: £1,755.6k) are included within administrative expenses.

The auditors' remuneration and audit services charged to the Syndicate within the fixed fee charged by the Managing Agent and the auditors' remuneration are as follows:

	2019	2018
	£'000	£'000
Audit of the Syndicate annual accounts	82.6	61.9
Other services pursuant to Regulations and Lloyd's Byelaws	52.3	39.1
Total	134.9	101.0

6 Staff numbers and costs

All staff in the UK are employed by the Brit Group service company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.

7 Remuneration of the Directors of Brit Syndicates Limited and Active Underwriter

No remuneration of the Directors of Brit Syndicates Limited has been charged to the Syndicate for the 2019 or 2018 calendar year.

The active underwriter received the following remuneration in respect of the Syndicate. This remuneration was paid to the active underwriter by the managing agent from the fixed fee it charged to the Syndicate.

	2019	2018
	£'000	£'000
Aggregate remuneration	469.8	155.1
Pension contributions	-	4.8
Total	469.8	159.9

No advances or credit were granted by the Managing Agent to any of its directors during the year.

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for the year ended 31 December 2019

8 Investment return

	2019	2018
	£'000	£'000
Income from investments	1,125.3	481.9
Gains on investments	337.3	46.4
Losses on investments	(0.5)	(7.7)
Investment management charges	(6.5)	(3.7)
	1,455.6	516.9
Allocated investment return transferred to the general business technical account	(1,455.6)	(516.9)
Net investment return included in the non-technical account	-	-
Total investment return	1,455.6	516.9

Average amount of funds available for investment during the year:	2019	2018
	in currency	in currency
Sterling	1,198.0	1,828.1
US dollars	10,062.5	27,856.1
Canadian dollars	11,027.7	5,430.5
Euros	758.8	1,401.9
Combined in Sterling	15,856.1	28,080.5

Gross calendar year investment yield	%	
Sterling	0.61%	0.50%
US dollars	2.24%	1.91%
Canadian dollars	1.72%	1.52%
Euros	0.00%	0.00%
Combined in Sterling	1.87%	1.62%

Overseas deposits have been excluded from the analysis as these are actively management by Lloyd's on behalf of the Syndicate.

9 Claims development tables

The following table illustrates the development of the estimates of earned ultimate cumulative claims incurred, including claims notified and IBNR. Non-Sterling cumulative claims estimates and cumulative payments are translated into Sterling at the period end rate as at 31 December 2019.

Estimate of cumulative gross incurred claims

£'000	2017	2018	2019
Underwriting year			
At end of underwriting year	61,508.9	45,173.3	27,833.4
One year later	92,867.0	80,883.1	
Two years later	97,672.5		
Current estimate of cumulative claims incurred	97,672.5	80,883.1	27,833.4
Cumulative payments	(65,889.0)	(30,116.2)	(1,854.5)
Gross outstanding claims provision as at 31 December 2019	31,783.5	50,766.9	25,978.9

9 Claims development tables (continued)

Estimate of cumulative net incurred claims

£'000			
Underwriting year	2017	2018	2019
At end of underwriting year	38,467.7	44,616.0	27,534.4
One year later	68,348.4	79,875.7	
Two years later	70,899.1		
Current estimate of cumulative claims incurred	70,899.1	79,875.7	27,534.4
Cumulative payments	(49,558.9)	(30,107.7)	(1,853.8)
Net Outstanding claims provision as at 31 December 2019	21,340.2	49,768.0	25,680.6

10 Financial investments

	Market Value		Cost	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	7,565.7	14,943.7	7,565.2	14,943.7
Debt securities	42,559.4	24,077.3	42,471.8	24,077.3
Total	50,125.1	39,021.0	50,037.0	39,021.0

Shares and other variable yield securities and units in unit trusts comprise of short-term deposits that are highly liquid cash equivalents, all of which are not listed.

All financial investments have been designated as held at fair value through profit or loss.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Year ended 31 December 2019	£'000	£'000	£'000	£'000
Short-term deposits	6,537.3	631.8	396.6	7,565.7
Debt Securities	1,104.9	41,454.5	-	42,559.4
Total	7,642.2	42,086.3	396.6	50,125.1

	Level 1	Level 2	Level 3	Total
Year ended 31 December 2018	£'000	£'000	£'000	£'000
Short-term deposits	10,503.3	4,440.4	-	14,943.7
Debt securities	24,077.3	-	-	24,077.3
Total	34,580.6	4,440.4	-	39,021.0

Notes to the Accounts

for the year ended 31 December 2019

10 Financial investments (continued)

a. Basis for determining the fair value hierarchy of financial instruments

The Syndicate has classified the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making those measurements. The fair value hierarchy comprises the following levels:

- (i) Level one – quoted prices (unadjusted) in active markets for identical assets
- (ii) Level two – inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (iii) Level three – inputs for the assets that are not based on observable market data (unobservable inputs).

Assets are categorised as level one where fair values determined in whole directly by reference to an active market relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis, i.e. the market is still active.

For assets and liabilities that are recognised at fair value on a recurring basis, the Syndicate determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values for level two and level three assets include:

- Values provided at the request of the Syndicate by pricing services and which are not publicly available or values provided by external parties which are readily available but relate to assets for which the market is not always active; and
- Assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

For all assets not quoted in an active market or for which there is no active market, the availability of financial data can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on the models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised is higher for instruments classified in level three and the classification between level two and level three depends highly on the proportion of assumptions used, supported by market transactions and observable data.

b. Valuation techniques

Level one

These represent assets traded in an active market whose quoted price is readily and regularly available and those prices represent actual and regular transactions on an arm's length basis.

Level two

Inputs include directly or indirectly observable inputs (other than level one inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level two securities contain certain investments in US and non-US government agency securities, US and non-US corporate debt securities and specialised investment funds. US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. Market observable inputs for these investments may include broker-dealer quotes, reported trades, issuer spreads and available bids. Non US government agency securities are priced with OTC quotes or broker-dealer quotes. Other market observable inputs include benchmark yields and reported trades. Issuer spreads are also available for these types of investments.

Notes to the Accounts

for the year ended 31 December 2019

10 Financial investments (continued)

US and non-US corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions (OTC prices/broker-dealer quotes) so they are derived indirectly using inputs that can be corroborated by observable market data. These also include certain private placement corporate debt securities which are valued with the use of discounted cash flow models.

Level two specialised investment funds contain credit opportunities funds that are valued based on the underlying assets in the fund on a security by security basis. A number of direct and indirect inputs such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated timing of principal repayments are considered during their valuation.

Level three

Level 3 investments comprise only of a Syndicate loan to the central fund. Lloyd's introduced Syndicate loans to the Central Fund with effect from the 2019 year of account and plan to continue to do so in subsequent years, subject to PRA approval each year. The proceeds from these loans are used to strengthen Lloyd's central resources and facilitate the injection of capital into Lloyd's Insurance Company SA (Lloyd's Brussels). Loans will not be repaid before 5 years have elapsed. Interest thereon will be determined by reference to the risk-free yield plus a credit spread and will normally be paid annually on an anniversary of the loan. The investment has been classified as an equity share for which the fair value cannot be determined using direct or indirect observable inputs, therefore this has been classified as Level 3.

11 Provision for unearned premium

	Gross £'000	Reinsurers' share £'000	Net £'000
Balance at 1 January 2019	43,503.9	(909.5)	42,594.4
Premiums written in the year	110,351.1	(15,471.6)	94,879.5
Premiums earned in the year	(108,846.3)	14,655.1	(94,191.2)
Effect of movement in exchange rates	(1,452.6)	61.3	(1,391.3)
Balance at 31 December 2019	43,556.1	(1,664.7)	41,891.4

	Gross £'000	Reinsurers' share £'000	Net £'000
Balance at 1 January 2018	26,633.4	(1,040.0)	25,593.4
Premiums written in the year	106,533.5	(8,201.0)	98,332.5
Premiums earned in the year	(91,469.5)	8,384.9	(83,084.6)
Effect of movement in exchange rates	1,806.5	(53.4)	1,753.1
Balance at 31 December 2018	43,503.9	(909.5)	42,594.4

Notes to the Accounts
for the year ended 31 December 2019

12 Claims outstanding

	Gross £'000	Reinsurers' share £'000	Net £'000
Balance at 1 January 2019	93,956.6	(19,244.1)	74,712.5
Claims incurred in current underwriting year	70,335.6	(3,115.6)	67,220.0
Claims paid in the year	(52,231.7)	10,129.5	(42,102.2)
Effect of movement in exchange rates	(3,531.2)	489.7	(3,041.5)
Balance at 31 December 2019	108,529.3	(11,740.5)	96,788.8

	Gross £'000	Reinsurers' share £'000	Net £'000
Balance at 1 January 2018	52,093.1	(22,564.8)	29,528.3
Claims incurred in current underwriting year	76,068.3	(2,018.7)	74,049.6
Claims paid in the year	(38,505.4)	6,521.5	(31,983.9)
Effect of movement in exchange rates	4,300.6	(1,182.1)	3,118.5
Balance at 31 December 2018	93,956.6	(19,244.1)	74,712.5

13 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank and in hand	646.5	2,374.0
Short-term deposits	7,169.0	14,943.7
Total	7,815.5	17,317.7

Cash and cash equivalents comprise of cash at bank and in hand and investment instruments with less than 90 days left to maturity when purchased. Short term deposits are included within financial investments in Note 10.

14 Other assets

Other assets comprise of only overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

15 Deferred acquisition costs

	2019 £'000	2018 £'000
Balance at 1 January	11,078.0	6,728.4
Change in deferred acquisition costs	170.3	3,926.1
Effect of movement in exchange rates	(331.8)	423.5
Balance at 31 December	10,916.5	11,078.0

Notes to the Accounts

for the year ended 31 December 2019

16 Creditors arising out of direct insurance operations

	2019	2018
	£'000	£'000
Due to intermediaries within one year	193.9	34.1
Total	193.9	34.1

17 Amount due to credit institutions

The Syndicate has a US\$50,000k, or £37,743k, at the December 2019 balance sheet rate, (2018: US\$32,500k / £25,518.4k) revolving credit facility which expires on 30th September 2020. The Syndicate has currently drawn down \$12,000k / £9,058.3k (2018: US\$14,000k / £10,992.5k) of the facility as cash to meet liquidity needs.

The facility incurs an interest rate of LIBOR + 1.9% for the drawn down amount, and a 0.665% non-utilisation fee for the undrawn amount.

18 Other debtors and creditors

Included within other debtors and creditors are investment receivables of £33,976.9k (2018: nil) and investment payables of £33,846.7k (2018: nil). These are due to certain investments maturing at the date of the Statement of Financial Position however remained unsettled.

19 Related parties

a. Brit Syndicates Limited (BSL or the Managing Agent)

The Managing Agent is a wholly-owned subsidiary of Brit Insurance Holdings Limited, which in turn is a subsidiary of Brit Limited. During the year, the Syndicate paid £8,281.0k (2018: £8,372.5k) to BSL in respect of management fees and a further £980.0k (2018: £985.0k) in managing agency fees. As at 31 December 2019, there were amounts outstanding of £7,690.6k (2018: £6,400.6k). The Syndicate also participates on various Lloyd's consortia managed by BSL. During the year, the Syndicate incurred consortia management fees of £396.8k (2018: £nil) and no technical advisor fees or profit commission to BSL in respect of the consortia agreements (2018: £nil).

b. Brit Insurance Services USA, Inc.

During the year, the Syndicate paid commissions to Brit Insurance Services USA, Inc., a service company within the Brit Limited group. The amounts in the Income Statement relating to trading with Brit Insurance Services USA, Inc. for the year included commission for introducing insurance business of £927.523k (2018: £964.1k). As at 31 December 2019, no amounts of commission were outstanding (2018: £nil). As at 31 December 2019, Brit Insurance Services USA, Inc. owed £4,590.9k (2018: £3,376.4k) of premiums to the Syndicate.

c. BGS Services (Bermuda) Limited

During the year, the Syndicate paid commissions to BGS Services (Bermuda) Limited, a service company within the Brit Limited group. The amounts on the Income Statement relating to trading with BGS Services (Bermuda) Limited included commission for introducing insurance business of £44.6k (2018: £nil). As at 31st December 2019, no amounts of commission were outstanding (2018: £nil). As at 31 December 2019, BGS Services (Bermuda) Limited owed £nil (2018: £nil) of premiums to the Syndicate.

d. Syndicate 2987

BSL also manages Syndicate 2987, a wholly-aligned syndicate of the Brit Limited group. No commissions or fees are paid or payable between the two syndicate entities.

Notes to the Accounts

for the year ended 31 December 2019

19 Related parties (continued)

e. Directors of Brit Syndicates Limited

For information relating to the remuneration of the directors of Brit Syndicates Limited, refer to note 7.

There are no related party director disclosures to note for the year ended 31 December 2019.

f. Ambridge Partners LLC

On 11 April 2019 the Brit Group exercised a call option to acquire the remaining 50% of the issued shares of Ambridge Partners LLC (Ambridge), following the initial acquisition of 50% in December 2015. Ambridge Partners LLC is a managing general underwriter of transactional insurance products, writing business on behalf of a range of insurers including entities within the Brit Limited group.

Trading with Ambridge Partners LLC is undertaken on an arm's-length basis and is settled in cash. The amounts in the Income Statement relating to trading with Ambridge Partners LLC for the year included commission for introducing insurance business of £795.2k (2018: £724.4k). As at 31 December 2019, no amounts of commission were outstanding (2018: nil). As at 31 December 2019, Ambridge Partners LLC owed £2,009.6k (2018: £2,080.1k) of premiums to the Syndicate.

The Syndicate also participates on various Lloyd's consortia managed by Ambridge. During the year, the Syndicate incurred consortia management fees of £306.5k (2018: £nil) and no technical advisor fees or profit commission to BSL in respect of the consortia agreements (2018: £nil).

g. Sutton Specialty Risk Inc.

On 2 January 2019, Brit Insurance Holding Limited, acquired 49% of the issued shares of Sutton Specialty Risk Inc. (Sutton) for a total purchase consideration of CAD\$17.2m and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a Canadian MGU, specialising in Accident and Health business.

Trading with Sutton is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Sutton for the period from 2 January 2019 to 31 December 2019 included commission for introducing insurance business of £255.1k. As at 31 December 2019, Sutton owed £1,138.2k of premiums to the Syndicate.

h. Camargue Underwriting Managers Proprietary Limited

On 30 August 2016, the Group acquired 50% of the share capital of the South African company, Camargue Underwriting Managers Proprietary Limited (Camargue) and also entered into a call and a put option to purchase the remaining 50% in 2021. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit. Trading with Camargue is undertaken on an arm's-length basis and is settled in cash.

The amounts in the income statement relating to trading with Camargue for the year ended 31 December 2019 included commission for introducing insurance business of £20.0k (2018: nil). As at 31 December 2019, Camargue owed £83.3k (2018: nil) of premiums to the Syndicate.

i. Key Management personnel compensation

For the purposes of FRS 102, the active underwriter is deemed to be the key management personnel. Compensation, including share-based payments, incurred by the key management personnel in 2019 was £501.0k (2018: £163.0k).

Notes to the Accounts

for the year ended 31 December 2019

20 Funds at Lloyd's

Every member is required to provide 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.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on the UK Prudential Regulation Authority (PRA) requirements and resource criteria. FAL has regard to a number of factors including but not limited to the nature and amount of risk to be underwritten by the members and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the control of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

21 Subsequent events

There are no subsequent events to note as at the date of approval of the accounts.

22 Ultimate holding company

The Managing Agent is a wholly-owned subsidiary of Brit Insurance Holdings Limited, a company registered in England and Wales. The intermediate holding company, in which the Managing Agent's result is consolidated, is Brit Limited, a company registered in England and Wales. Copies of Brit Limited's consolidated accounts can be obtained by writing to The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB, or from the website www.britinsurance.com.

The ultimate parent undertaking is Fairfax Financial Holdings Limited (Fairfax), a company registered in Toronto. Copies of Fairfax consolidated accounts can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website www.fairfax.ca.

Directors of the Managing Agent

Executive

Mark Andrew Allan
Matthew Dominic Wilson
Christiern Robert James Dart Michael
David Jeremy Gould

Non-Executive

Simon Philip Guy Lee
Anthony John Medniuk
Caroline Frances Ramsay
Andrea Caroline Natascha Welsch
Pinar Yetgin

Secretary

Tim James Harmer

Active Underwriter

Simon Bird (appointed on 1 January 2019)

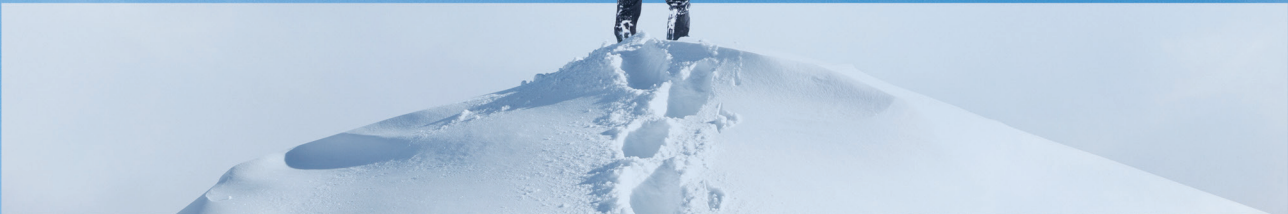
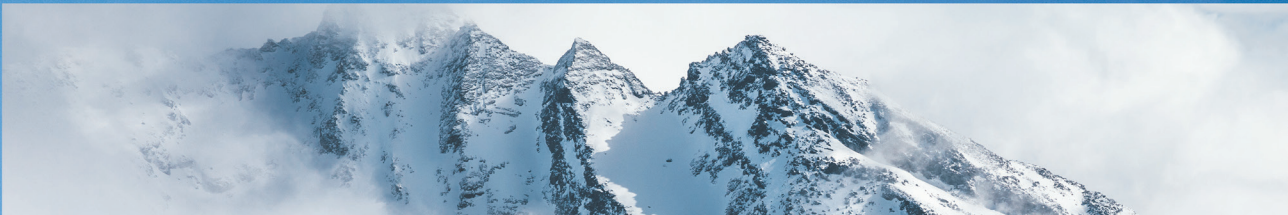
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Chartered Accountants and Statutory Auditors
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