

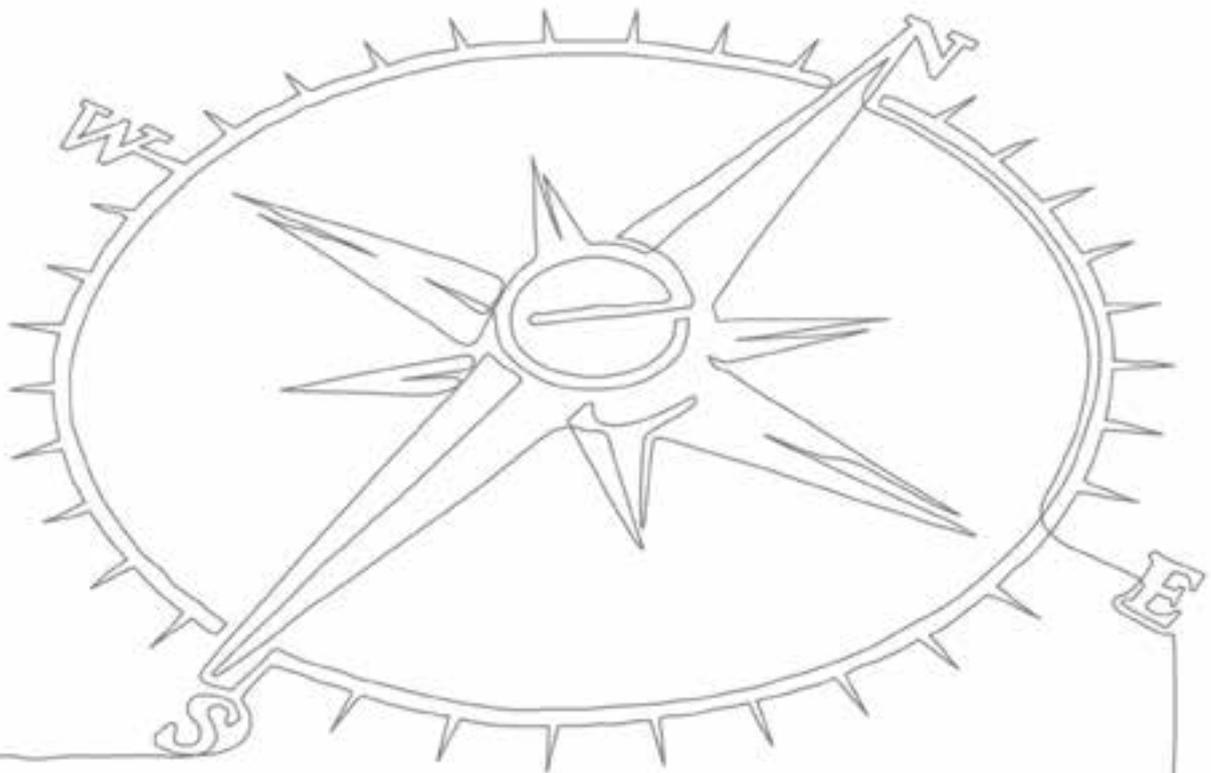
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# Navigating change



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# Welcome to our Annual report 2019

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2019 was another catastrophe impacted year for the syndicate. The growth of the syndicate's cyber book highlights the positive impact diversification has had on the overall portfolio performance.

## Contents

- 1 Highlights
- 2 Strategic report of the managing agent
- 4 Managing agent's report
- 11 Statement of managing agent's responsibilities
- 12 Independent auditor's report to the members of syndicate 6107
- 14 Statement of comprehensive income
- 15 Balance sheet as at 31 December 2019
- 16 Cash flow statement
- 16 Statement of changes in members' balances
- 17 Notes to the syndicate annual accounts
- 32 2017 year of account for syndicate 6107
- 33 Managing agent's report
- 34 Statement of managing agent's responsibilities
- 35 Independent auditor's report to the members of syndicate 6107 - 2017 closed year of account
- 37 Profit or loss account
- 38 Balance sheet closed at 31 December 2019
- 39 Cash flow statement
- 40 Statement of changes in members' balances
- 41 Notes to the 2017 syndicate underwriting year accounts
- 45 Seven-year summary of closed year results at 31 December 2019
- 46 Managing agent corporate information

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# Highlights

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Syndicate capacity

**£67.6m**

(2018: £55.1m)

Claims ratio

**91%**

(2018: 85%)

Gross premiums written

**\$73.5m**

(2018: \$68.8m)

Expense ratio

**24%**

(2018: 23%)

Earned premiums, net of reinsurance

**\$53.0m**

(2018: \$54.5m)

Combined ratio

**115%**

(2018: 108%)

Loss for the financial year

**\$6.6m**

(2018: Loss \$3.3m)

# Strategic report of the managing agent

## Overview

Syndicate 6107 (the 'syndicate') continued to write a share of the property reinsurance business and a share of certain cyber business written by syndicates 623 and 2623.

The capacities of the syndicates managed by Beazley Furlonge Ltd are as follows:

|              | 2019<br>£m     | 2018<br>£m     |
|--------------|----------------|----------------|
| 2623         | 1,624.0        | 1,554.0        |
| 623          | 366.2          | 351.0          |
| 3623         | 69.3           | 213.0          |
| <b>6107</b>  | <b>67.6</b>    | <b>55.1</b>    |
| 3622         | 25.0           | 23.0           |
| 5623         | 63.1           | 22.5           |
| 6050         | -              | -              |
| <b>Total</b> | <b>2,215.2</b> | <b>2,218.6</b> |

## Year of account results

The 2017 underwriting year has closed with a declared loss of \$17.1m, which represents a loss on capacity of 27.9%. The syndicate has incurred material losses as a result of the natural catastrophe events of 2017 and 2018. The impact of the property reinsurance loss on the 2017 year of account closing return on capacity, has been partially offset by the profitability of the cyber business. The 2018 underwriting year currently forecasts a loss on capacity of 10.0%. However, the ultimate result of the 2018 underwriting year will be dependant on the performance of both its property reinsurance business and its cyber business (which is currently forecast to close with a profit). The 2019 underwriting year has been impacted by the natural catastrophe events of Typhoons Hagibis and Faxai in Japan.

## Rating environment

Premium rates charged for renewal business increased by 5% during 2019 (2018: increased by 6%). Rates increased in 2019 on the property reinsurance portfolio due to the combined effect of the 2017 and 2018 catastrophe losses, while rates on the cyber business remained stable. Due to the claims activity seen in the second half of the year and capital requirements following the Japanese typhoons, market rate increases are also expected in 2020 on the catastrophe impacted lines of business.

## Combined ratio

The combined ratio of an insurance provider is a common measure of its operating performance and represents the ratio of its total costs (excluding foreign exchange movements) to total net earned premium. The syndicate's combined ratio for 2019 increased to 115% (2018: 108%).

## Claims

The claims ratio of an insurance provider is a measure of the claims experience and represents the ratio of its net insurance claims to net earned premium. The claims ratio of syndicate 6107 has increased to 91% in 2019 (2018: 85%).

## Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses, were \$12.8m (2018: \$12.7m). The breakdown of these costs is shown below:

|   | 2019<br>\$m | 2018<br>\$m |
|---|-------------|-------------|
| Brokerage costs                           | 7.5         | 8.4         |
| Administrative and other expenses         | 5.3         | 4.3         |
| <b>Net operating expenses<sup>1</sup></b> | <b>12.8</b> | <b>12.7</b> |

1. A further breakdown of net operating expenses can be seen in note 4.

As a percentage of net earned premium, brokerage costs are approximately 14% (2018: 15%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Administrative expenses comprise primarily an override commission charged by the host syndicates. The expense ratio of an insurance provider is a measure of the net operating expenses to net earned premium. The expense ratio for 2019 is 24% (2018: 23%).

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## Reinsurance

With a view to continuing to manage its net exposures, the syndicate increased its outward reinsurance spend in 2019 to \$11.7m (2018: \$11.5m).

Reinsurance is purchased for a number of reasons:

- to mitigate the impact of catastrophes such as hurricanes;
- to enable the syndicate to put down large lead lines on risks we underwrite; and
- to manage capital to lower levels.

## Solvency II

The Solvency II regime came into force on 1 January 2016. Beazley continues to provide Solvency II pillar 3 reporting to Lloyd's for the syndicate. Under Solvency II requirements, the syndicate is required to produce a Solvency Capital Requirement ('SCR') which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews the syndicate's proposed SCR each year in conjunction with the syndicate's business plan.

## Solvency capital requirement

The current SCR has been established using our Solvency II approved internal model which has been run within the regime as prescribed by Lloyd's. In order to perform the capital assessment, we have made significant investments in both models and process:

- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk/reward profile of the business and allows teams to focus on strategies that improve return on capital.

## Outlook

The 2018 underwriting year has incurred material losses as a result of the natural catastrophe events of 2018. The underwriting year is currently forecast to close with a loss on capacity of 10.0%.

The 2019 underwriting year has been impacted by reserving estimates on Typhoons Hagibis and Faxai in Japan. The growth in the cyber book has continued to add diversification against our property reinsurance portfolio.

The syndicate anticipates further rate increases in the property reinsurance book in 2020. The syndicate will also write an additional class, Beazley Breach Response cyber premium, through its reinsurance arrangement with syndicate 2623 and 623 in 2020. This mix of cyber and property reinsurance premium leads to a positive outlook for the syndicate in 2020.

A P Cox  
Active underwriter

2 March 2020

# Managing agent's report

The managing agent presents its report for the year ended 31 December 2019.

This annual report is 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 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103'). Underwriting year accounts for the 2017 closed year of account will be made available to the syndicate members.

## Principal activity

The principal activity of syndicate 6107 is the transaction of property reinsurance and cyber reinsurance business with syndicates 623 and 2623 at Lloyd's.

## Risk governance and reporting

Beazley Furlonge Limited's board of directors has the responsibility for defining and monitoring the risk appetite within which Beazley Furlonge Limited and the syndicates operate, with key individuals and committees accountable for day-to-day management of risks and controls. Regular reporting by the risk management team in board meetings and senior management committees ensures that risks are monitored and managed as they arise.

## 2019 in review

Last year the syndicate focused on the impact of external and internal change on Beazley plc (the 'group') and this change has continued into 2019.

## Governance

In 2019, there were a number of changes to the membership of the Beazley plc executive committee, which resulted in changes to risk owners. Risk owners, a key role within the risk management framework, are senior members of staff responsible for identifying and managing risk in their areas of responsibility. The risk management function has worked with the new risk owners to explain their role and ensure that nothing has been missed or lost during the transition. Having new risk owners has created an opportunity to take a fresh look at the risks inherent within a function and reassess and enhance the control environment.

The chief risk officer of the managing agent has taken over as chairman of the risk and regulatory committee, which is the executive level committee with oversight of how the managing agent is managing risk. This evolution enables the committee to operate as an effective second line of defence committee to monitor and challenge risk owners as they undertake their risk responsibilities. The change has also meant that senior risk managers now attend the committee, which has improved the discussion as a result of their detailed knowledge of the areas of the risk register they focus on.

With the change in chief underwriting officer, the managing agent has taken the opportunity to split the underwriting committee into two separate committees. The underwriting committee will continue to be chaired by the chief underwriting officer and will focus on developing and delivering the business plan. The newly formed underwriting governance committee is chaired by the chief risk officer and will focus on oversight of the quality of the information used by the underwriting committee. The benefits created from this split are having the most appropriate people present at each committee and having sufficient time to focus on the relevant topics. The chief underwriting officer and chief risk officer are present at both committees, which provides a conduit of information between both committees.

The exposure management function now reports to the chief risk officer. Whilst the identification and management of aggregated exposure remains the responsibility of the underwriting teams and the chief underwriting officer remains the risk owner, the change in reporting line means that the exposure management team can move to more of an oversight role and challenge the underwriting teams to ensure that the methods and assumptions used to manage exposure remains appropriate. A further enhancement has been to split the exposure management committee into a committee that focusses on natural catastrophes and a committee that focuses on man-made catastrophes such as cyber. Again, this split means that we have the most appropriate people involved in oversight of these key risks as both areas require a different skill set and we ensure that we commit an appropriate amount of time so that one risk area does not monopolise time to the detriment of the other.

The experience of operating these new governance structures for the majority of 2019, has already demonstrated the value of having made these changes.

### Culture

Every two years, the managing agent commissions a comprehensive staff engagement survey and this was undertaken in 2019. The results of this survey, coupled with leadership scores, are a useful guide for the risk management function to understand how the risk culture is evolving at the managing agent. It has been observed that the completion rate remains high at 83% and the level of engagement is 70%, which is on the boundary of top quartile companies and is at a relatively similar level from the survey in 2017. The survey also evidences a strong and open risk culture with consistency across most of the managing agents offices. Any deviation by function or office is a valuable risk metric which the risk function use to scope their work in order to provide assurance to the board.

The chief risk officer has taken on the executive sponsorship of the newly formed mental wellbeing and mental health initiative. Mental wellbeing is about educating the organisation on how to take care of themselves, since our people are our most important asset. Sleep deprivation and stress are two issues which can reduce the effectiveness of a workforce and their effects can be particularly dangerous because they are not always visible like a physical condition. Mental health is about providing a support network for situations where a mental health incident has occurred. This initiative has the secondary benefit of helping to support the risk culture at the managing agent.

In 2019, a number of new ways of working were introduced at the managing agent. Activity based working provides members of staff with different work spaces that are more conducive to the activity being undertaken, from a quiet room for high focussed activity such as reading and reviewing to a collaborate space for group discussion, innovation and brainstorming. Remote working means that advances in technology allows staff to continue to work seamlessly when away from their offices. This reduces the need to rearrange meetings which would have caused a delay and reduces the risk that a meeting does not include an important participant. Finally, a number of change programmes are now being undertaken using an agile approach. This simply means that a cross functional team is formed to deliver change using a shared vision from the outset rather than one function delivering on behalf of another function. The core team meet on a more frequent basis so that activity is undertaken and overseen more regularly and any issues or decisions can be considered and made by all stakeholder's in a timely manner, thereby increasing the likelihood of a successful outcome.

Whilst new ways of working can create risk, the assessment is that these changes are actually reducing operational risk.

### Emerging and strategic risks

The emerging and strategic risk analysis helped identify the need for two of the current strategic initiatives. The Beazley Digital strategic initiative is working out how the syndicate underwrites and processes simpler risks better. The Faster, Smarter Underwriting strategic initiative is working out how the syndicate provide underwriters with data and analytics to help better underwrite complex risks. Both initiatives are creating opportunities for the managing agent to work in new ways, develop new skill sets and harness new technology. Whilst they fundamentally improve profitability, they also reduce insurance and operational risk.

### Brexit

Despite the uncertainty during 2019, a cross functional working group has prepared the host syndicates for the worst case scenario of a hard Brexit, which is where the UK leaves the EU without agreements after the transition period. European clients who previously would have used the Lloyd's of London market, can now use the Lloyd's Brussels platform, which has been operating successfully since 1 January 2019. Authorisation for a European based service company, Beazley Solutions International Limited, which will underwrite risks from European offices onto the Lloyd's Brussels platform has been received. As such, the host syndicates have successfully navigated the key risks of a potential hard Brexit. Since such a hard Brexit is not certain, our preparations have also considered some form of transitional arrangement which continues after 31 December 2020.

### Climate change

The syndicate continues to monitor the impact and risks of climate change on its insurance portfolio and investment portfolio. The group has been undertaking initial stress tests of physical and transitional risks on behalf of the managing agent of the syndicates. This exercise is in the process of being extended out across individual classes of business to better understand the physical, transition and liability risks and assess how the insurance and investment portfolios should change over time.

### Conclusion

Dealing with change can create debilitating inertia for a company and significantly increase risk or it can create the catalyst for improvement and ultimately reduce risk. Our assessment is that the syndicate is harnessing the opportunities created by change.

The latest chief risk officer report to the board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that the syndicate is operating within risk appetite as at 31 December 2019.

## Managing agent's report *continued*

### Risk management philosophy

The managing agent's risk management philosophy is to balance the risks the business takes on with the associated cost of controlling these risks, whilst also operating within the risk appetite agreed by the board. In addition, our risk management processes are designed to continuously monitor our risk profile against risk appetite and to exploit opportunities as they arise.

### Risk management strategy

The Beazley Furlonge Limited board has delegated executive oversight of the risk management department to the executive committee, which in turn has delegated immediate oversight to the risk and regulatory committee. The board has also delegated oversight of the risk management framework to the audit and risk committee.

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees are aware of the role they play in all aspects of the risk management process, from identifying sources of risk to their part in the control environment. The impact of each risk is recorded in the risk register on a 1:10 likelihood of that risk manifesting in the next 12 months. A risk owner has been assigned responsibility for each risk, and it is the responsibility of that individual to periodically assess the impact of the risk and to ensure appropriate risk mitigation procedures are in place. External factors facing the business and the internal controls in place are routinely reassessed and changes are made when necessary. On an annual basis, the board agrees the risk appetite for each risk event and this is documented in the risk management framework document. The residual financial impact is managed in a number of ways, including:

- mitigating the impact of the risk through the application of controls;
- transferring or sharing risk through outsourcing and purchasing insurance and reinsurance; and
- tolerating risk in line with the risk appetite.

In addition, the following risk management principles have been adopted:

- risk management is a part of the wider governance environment;
- techniques employed are fit for purpose and proportionate to the business;
- risk management is a core capability for all employees;
- risk management is embedded in day-to-day activities;
- there is a culture of risk awareness, in which risks are identified, assessed and managed;
- risk management processes are robust and supported by verifiable management information; and
- risk management information and reporting is timely, clear, accurate and appropriately escalated.

### Risk management framework

The managing agent takes an enterprise-wide approach to managing risk following the syndicate's risk management framework. The framework establishes our approach to identifying, measuring, mitigating and monitoring the syndicate's key risks. The managing agent has adopted the 'three lines of defence' framework: namely business risk management, the risk management function and the internal audit function. Within business risk management, there are two defined risk and control roles: risk owner and control reporter. Each risk event is owned by the risk owner who is a senior member of staff. Risk owners, supported by the risk management team, perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

#### *Business risk management* *Risk ownership*

- Identifies risk
- Assesses risk
- Mitigates risk
- Monitors risk
- Records status
- Remediates when required

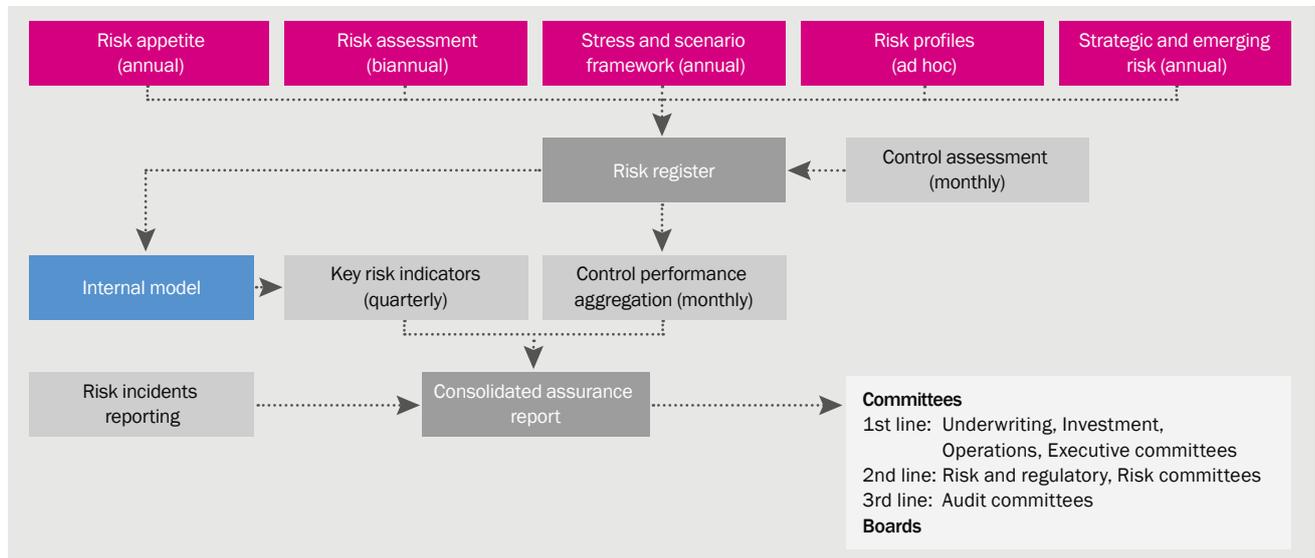
#### *Risk management* *Risk oversight*

- Are risks being identified?
- Are controls operating effectively?
- Are controls being signed off?
- Reports to committees and board

#### *Internal audit* *Risk assurance*

- Independently tests control design
- Independently tests control operation
- Reports to committees and board

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (53 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the board, and the control environment that is operated by the business to remain within the risk appetite.



The diagram above illustrates the components of the risk management framework as operated across the Beazley Group.

In summary, the board of the managing agent identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. Risk management then reports to the board on how well the business is operating using a risk management report. For each risk, the risk management report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance functions and whether there have been any events that we can learn from (risk incidents).

Finally, the framework is continually evaluated and where appropriate improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks. There were no material changes made during 2019.

A suite of risk management reports are provided to the boards and committees to assist senior management and board members to discharge their oversight and decision making responsibilities. The risk reports include the risk appetite statement, the risk management report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the Beazley plc remuneration committee and the ORSA report. The internal audit function considers the risk management framework in the development of its audit universe to determine its annual risk-based audit plan. The plan is based on, among other inputs, the inherent and residual risk scores as captured in the risk register. Finally, a feedback loop operates, with recommendations from the internal audit reviews being assessed by the business and the risk management function for inclusion in the risk register as appropriate.

## Managing agent's report *continued*

### The risks to financial performance

The board of the managing agent monitors and manages risks grouped into eight categories, which cover the universe of risk that could affect the syndicate. There have been no new risk areas identified and no major shifts in existing risks. The board considers the following two risk categories to be the most significant.

#### Insurance risk

Given the nature of the syndicate's business, the key risks that impact financial performance arise from insurance activities. The main insurance risks can be summarised in the following categories:

- **Natural catastrophe risk:** The risk of one or more large events caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given the syndicate's risk profile, such an event could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Non natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given the syndicate's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Reserve risk:** The syndicate has a consistent reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The managing agent uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.
- **Single risk losses:** Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one host syndicate policy will have a material impact on the syndicate's financial performance.

#### Strategic risk

Alongside these insurance risks, the success of the syndicate depends on the execution of an appropriate strategy. The main strategic risks can be summarised as follows:

- **Strategic decisions:** The syndicate's performance would be affected in the event of making strategic decisions that do not add value. The managing agent on behalf of the syndicate mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the Beazley plc executive committee and input from the strategy and performance group (a group of approximately 30+ senior individuals from across different disciplines at Beazley).
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which the syndicate operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of the syndicate's progress against its strategy.
- **Senior management performance:** There is a risk that senior management could be overstretched or could fail to perform, which would have a detrimental impact on the syndicate's performance. The performance of the senior management team is monitored by the chief executive and talent management team and overseen by the Beazley plc nomination committee.
- **Reputation:** Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting, it has the potential to have a significant impact on an organisation. The syndicate expects staff working on their behalf to act honourably by doing the right thing.
- **Flight:** There is a risk that the managing agent could be unable to deliver its strategy due to the loss of key personnel. The syndicate has controls in place to identify and monitor this risk, for example, through succession planning.
- **Crisis management:** This is the risk caused by the destabilising effect of the syndicate having to deal with a crisis and is mitigated by having a detailed crisis management plan.
- **Corporate transaction:** There is a risk that the syndicate could undertake a corporate transaction which did not return the expected value to the syndicate. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

Under the environmental risk heading, the board identifies and analyses emerging and strategic risk on an annual basis for discussion at the Beazley plc board strategy day in May.

### Other risks

- **Operational risk:** This risk is the failure of people, processes and systems or the impact of an external event on the syndicate's operations, and is monitored by the operations committee. An example would be a cyber attack having a detrimental impact on our operations.
- **Credit risk:** The syndicate has credit risk to its reinsurers. The underwriting committee monitors this risk.
- **Regulatory and legal risk:** This is the risk that the syndicate might fail to operate in line with the relevant regulatory framework in the territories where it does business. Of the eight risk categories, the board has the lowest tolerance for this risk. This risk is monitored by the risk and regulatory committee.
- **Group risk:** The structure of the Beazley group is not complex and so the main group risk is that one group entity might operate to the detriment of another group entity or entities. This includes, for example, changes in tax legislation such as the US Tax Cuts and Jobs Act enacted in late 2017 which affects which types of intra-group reinsurance it is efficient for Beazley to use. The Beazley plc board monitors this risk through the reports it receives from each entity.

### Anti-bribery and corruption risk

The syndicate also considered anti-bribery and corruption risk across all risk categories. We are committed to ensuring that all business is conducted in an ethical and honest manner, and that we are not involved in any illicit activity defined under the UK Bribery Act and US Foreign Corrupt Practices Act. This risk includes the risk of bribery and corruption we are exposed to and manifests itself in the susceptibility to unethical or dishonest influences whereby illicit payments and/or inducements are either made or received. Such activity has severe reputational, regulatory and legal consequences, including fines and penalties. Considerations relevant to this risk include the nature, size and type of transactions, the jurisdiction in which transactions occur, and the degree to which agents or third parties are used during such transactions. Every employee and individual acting on the syndicate's behalf is responsible for maintaining our reputation. We have a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all aspects of our business. In doing so, we aim to recruit and retain high-calibre employees who carry out their responsibilities honestly, professionally and with integrity. We maintain a number of policies designed to prevent any risk of bribery and corruption, which are communicated to all employees and supplemented with appropriate training.

### Climate change risk

The warming of the global climate is recognised as a significant emerging risk due to its widespread potential impact on the global population, environment and economy. A key aspect of the host syndicates' business model is to support their clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. As a speciality insurer, various classes of business the host syndicates underwrite are subject to the affect climate change presents to the risk environment. As part of the underwriting process, the host syndicates work with their insureds to understand the risks facing their organisation, including applicable climate related risks, to tailor insurance coverages to mitigate the associated financial risks.

We acknowledge and accept that over time climate change could impact the risks facing the host syndicates' insureds and we aim to manage the resulting risk to the syndicate as described below.

- **Pricing risk:** This is the risk that current pricing benchmarks do not adequately consider the prospective impact of climate change resulting in systemic under-pricing of climate exposed risks. The syndicate's business planning process establishes how much exposure in certain classes of business or geographic area we wish to accept. We rely on a strong feedback loop between our claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk by risk transactional level considerations. Our underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk.
- **Catastrophe risk:** This is the risk that current models do not adequately capture the impacts of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events. The syndicate utilises Risk Management Solutions (RMS) models to facilitate the estimation of aggregate exposures based on the syndicate's underwriting portfolio. There is an on-going feedback loop between (re)insurers and catastrophe model vendors which has contributed to model improvements. Catastrophe models are evolving to include new or secondary perils which may or may not be related to climate change. In addition, the syndicate runs a series of Natural Catastrophe Realistic Disaster Scenarios ('RDS') on a regular basis which monitors the syndicate's exposure to these perils. These include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.
- **Reserve risk:** This is the risk that established reserves are not sufficient, to reflect the ultimate impact climate change may have on paid losses. With support from our group actuarial team, claims teams and other members of management the syndicate establishes financial provisions for our ultimate claims liabilities. The syndicate maintains a prudent approach to reserving to help mitigate the uncertainty within the reserves estimation process.
- **External event risk:** This is the risk that the physical impact of climate related events has a material impact on our own people, processes and systems leading to increased operating costs or the inability to deliver uninterrupted client service. The syndicate has business continuity plans in place to facilitate the delivery of uninterrupted client service in the event of a disaster.

## Managing agent's report *continued*

- **Commercial management risk:** The syndicate aims to minimise where possible the environmental impact of our business activities and those that arise from the occupation of our office spaces. As we operate in leased office spaces our ability to direct environmental impacts is relatively limited however we do engage with our employees, vendors and customers in an effort to reduce overall waste and environmental footprint.
- **Credit risk:** As a result of material natural catastrophe events there is a risk that our reinsurance counterparties are unable to pay reinsurance balances due to the syndicate. If the frequency or severity of these events is increased due to climate change this could have a corresponding increase on credit risk. An important consideration when placing our reinsurance programme is evaluation of our counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking which considers: financial strength ratings, capital metrics, performance metrics as well as other considerations.
- **Regulatory and legal risk:** Regulators, investors and other stakeholders (including political activists) are becoming increasingly interested in the private sectors' response to climate change. Failure to appropriately engage with these stakeholders and provide transparent information may result in the risk of reputational damage or increased scrutiny. The syndicate regularly monitors the regulatory landscape to ensure that we can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk.
- **Strategic risk:** This is the risk that our strategy fails to effectively consider climate change resulting in our business planning not adapting fast enough to respond to changes in wider claims trends. In addition, market pressure or external factors result in a decision to stop underwriting certain classes of business which impacts our ability to deliver business plan results. This results in loss of value for investors which erode their confidence in management. This risk is considered through the annual and long term business planning process, we additionally look to the Lloyd's market to provide additional guidance.

### Directors

A list of directors of the managing agent who held office during the year can be found on page 46 of this syndicate annual report.

### Disclosure of information to the auditor

The directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the syndicate's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the syndicate's auditor is aware of that information.

### Auditor

Following the audit tender carried out in 2018, Ernst & Young LLP have been appointed as the new external auditor for the 2019 accounting year, as approved by the Beazley Furlonge Ltd board on 24 May 2019. Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office, subject to the requirements of the Lloyd's advance consent regime.

On behalf of the board

C C W Jones  
Finance director

2 March 2020

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# Statement of managing agent's responsibilities

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The directors of the managing agent are 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 requires the directors of the managing agent to prepare their syndicates financial statements for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these annual accounts, the directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors of the managing agent are responsible for the maintenance and integrity of the syndicate and financial information included on the managing agents website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

On behalf of the board

C C W Jones  
Finance director

2 March 2020

# Independent auditor's report to the members of syndicate 6107

## Opinion

We have audited the syndicate annual accounts of syndicate 6107 ('the syndicate') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Cash flow Statement, the Statement of Changes in Members' Balances and the related notes 1 to 13, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors of 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 directors of the managing agent have 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.

## Other information

The other information comprises the information included in the annual report, set out on pages 2 to 11, other than the syndicate annual accounts and our auditor's report thereon. The directors of the managing agent are responsible for the other information.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

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 financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- certain disclosures of the managing agents' emoluments specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## Responsibilities of the directors of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 11, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the 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 in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

## Auditor's 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 auditor's 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 financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Wilson (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

2 March 2020

### Notes:

- 1 The maintenance and integrity of the managing agent web site is the responsibility of the manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Statement of comprehensive income

year ended 31 December 2019

|   | Notes | 2019<br>\$'000    | 2018<br>\$'000<br>(restated) |
|---|-------|-------------------|------------------------------|
| Gross premiums written  |       | 73,501.4          | 68,813.0                     |
| Outward reinsurance premiums  |       | (11,663.8)        | (11,534.3)                   |
| <b>Net premiums written</b>   |       | <b>61,837.6</b>   | <b>57,278.7</b>              |
| Change in the gross provision for unearned premiums                           | 10    | (6,772.0)         | (2,843.7)                    |
| Change in the provision for unearned premiums, reinsurers' share              | 10    | (2,058.5)         | 78.8                         |
| Change in the net provision for unearned premiums                             |       | (8,830.5)         | (2,764.9)                    |
| <b>Earned premiums, net of reinsurance</b>                                    |       | <b>53,007.1</b>   | <b>54,513.8</b>              |
| Allocated investment return transferred from the non-technical account        |       | 1,526.7           | 1,917.4                      |
| Gross claims paid   |       | (49,623.4)        | (35,174.0)                   |
| Reinsurers' share of claims paid  |       | 9,329.5           | 6,760.5                      |
| Claims paid net of reinsurance  |       | (40,293.9)        | (28,413.5)                   |
| Change in the gross provision for claims                                      | 10    | (28,342.1)        | (26,434.1)                   |
| Change in the provision for claims, reinsurers' share                         | 10    | 20,408.9          | 8,473.5                      |
| Change in the net provision for claims  |       | (7,933.2)         | (17,960.6)                   |
| <b>Claims incurred, net of reinsurance</b>                                    |       | <b>(48,227.1)</b> | <b>(46,374.1)</b>            |
| <b>Net operating expenses</b>   | 4     | <b>(12,790.5)</b> | <b>(12,749.4)</b>            |
| <b>Balance on the technical account</b>                                       |       | <b>(6,483.8)</b>  | <b>(2,692.3)</b>             |
| Investment income   | 5     | (1,526.7)         | 1,917.4                      |
| Allocated investment return transferred to general business technical account |       | 1,526.7           | (1,917.4)                    |
| Loss on foreign exchange  |       | (127.4)           | (436.0)                      |
| Other charges   | 6     | -                 | (189.7)                      |
| <b>Loss for the financial year</b>  |       | <b>(6,611.2)</b>  | <b>(3,318.0)</b>             |

All of the above operations are continuing.

The notes on pages 17 to 31 form part of these financial statements.

# Balance sheet

as at 31 December 2019

|   | Notes | 2019<br>\$'000    | 2018<br>\$'000    |
|---|-------|-------------------|-------------------|
| <b>Assets</b>   |       |                   |                   |
| <b>Reinsurers' share of technical provisions</b>              |       |                   |                   |
| Provision for unearned premiums, reinsurers' share            | 10    | 2,487.4           | 4,545.6           |
| Claims outstanding, reinsurers' share                         | 10    | 47,101.5          | 26,678.2          |
|   |       | <b>49,588.9</b>   | <b>31,223.8</b>   |
| <b>Debtors</b>  |       |                   |                   |
| Debtors arising out of reinsurance operations                 |       | 31,865.8          | 23,866.6          |
| Other debtors   | 7     | 66,084.9          | 65,596.9          |
|   |       | <b>97,950.7</b>   | <b>89,463.5</b>   |
| <b>Deferred acquisition costs</b>                             |       | <b>6,178.6</b>    | <b>2,453.7</b>    |
| <b>Cash at bank and in hand</b>                               | 8     | <b>421.3</b>      | <b>185.5</b>      |
| <b>Other prepayments and accrued income</b>                   |       | <b>611.9</b>      | <b>449.7</b>      |
| <b>Total assets</b>   |       | <b>154,751.4</b>  | <b>123,776.2</b>  |
| <b>Liabilities, capital and reserves</b>                      |       |                   |                   |
| <b>Capital and reserves</b>                                   |       |                   |                   |
| Members' balances attributable to underwriting participations |       | (32,881.1)        | (13,932.9)        |
|   |       | <b>(32,881.1)</b> | <b>(13,932.9)</b> |
| <b>Technical provisions</b>                                   |       |                   |                   |
| Provision for unearned premiums                               | 10    | 26,943.2          | 20,021.4          |
| Claims outstanding  | 10    | 126,386.6         | 97,681.3          |
|   |       | <b>153,329.8</b>  | <b>117,702.7</b>  |
| <b>Creditors</b>  |       |                   |                   |
| Creditors arising out of reinsurance operations               |       | 9,154.4           | 7,278.5           |
| Other creditors   | 9     | 25,144.2          | 12,727.9          |
|   |       | <b>34,298.6</b>   | <b>20,006.4</b>   |
| <b>Accruals and deferred income</b>                           |       | <b>4.1</b>        | <b>-</b>          |
| <b>Total liabilities, capital and reserves</b>                |       | <b>154,751.4</b>  | <b>123,776.2</b>  |

The notes on pages 17 to 31 form part of these financial statements.

The syndicate annual accounts on pages 14 to 31 were approved by the board of Beazley Furlonge Limited on 2 March 2020 and were signed on its behalf by:

A P Cox  
Active underwriter

C C W Jones  
Finance director

# Cash flow statement

year ended 31 December 2019

|   | 2019<br>\$'000    | 2018<br>\$'000    |
|---|-------------------|-------------------|
| <b>Reconciliation of loss for the year to net cash flow from operating activities</b> |                   |                   |
| Loss in the year  | (6,611.2)         | (3,318.0)         |
| Increase in net technical provisions  | 17,262.0          | 20,236.1          |
| Increase in deferred acquisition costs  | (3,724.9)         | (284.3)           |
| Increase in debtors   | (8,649.4)         | (10,847.2)        |
| Increase in creditors   | 14,296.3          | 13,740.4          |
| Investment return   | (1,526.7)         | (1,917.4)         |
| <b>Net cash flow from operating activities</b>  | <b>11,046.1</b>   | <b>17,609.6</b>   |
| Cash received from investment return  | 1,526.7           | 1,917.4           |
| <b>Net cash from investing activities</b>   | <b>1,526.7</b>    | <b>1,917.4</b>    |
| Transfer to member in respect of underwriting participations                          | (12,337.0)        | (19,434.1)        |
| <b>Net cash from financing activities</b>   | <b>(12,337.0)</b> | <b>(19,434.1)</b> |
| <b>Net increase in cash and cash equivalents</b>                                      | <b>235.8</b>      | <b>92.9</b>       |
| Cash and cash equivalents at the beginning of the year                                | 185.5             | 92.6              |
| Effect of exchange rate changes on cash and cash equivalents                          | -                 | -                 |
| <b>Cash and cash equivalents at the end of the year</b>                               | <b>421.3</b>      | <b>185.5</b>      |

# Statement of changes in members' balances

31 December 2019

|  | 2019<br>\$'000    | 2018<br>\$'000    |
|--|-------------------|-------------------|
| Members' balances brought forward at 1 January                         | (13,932.9)        | 8,819.2           |
| Total comprehensive loss for the financial year                        | (6,611.2)         | (3,318.0)         |
| Profit distribution before members agent's fees – 2015 year of account | -                 | (19,434.1)        |
| Profit distribution before members agent's fees – 2016 year of account | (12,337.0)        | -                 |
| <b>Members' balances carried forward at 31 December</b>                | <b>(32,881.1)</b> | <b>(13,932.9)</b> |

The notes on pages 17 to 31 form part of these financial statements.

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

# Notes to the syndicate annual accounts

## 1 Accounting policies

### Basis of preparation

Syndicate 6107 ('the syndicate') comprises a group of members of the Society of Lloyd's that underwrites reinsurance business in the London Market. The address of the syndicate's managing agent is given on page 46. These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') and applicable Accounting Standards in the United Kingdom and the Republic of Ireland, Financial Reporting Standard 102 'FRS 102' and the applicable Accounting Standard on insurance contracts, Financial Reporting Standard 103 'FRS 103'.

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss that are measured at fair value. The principal accounting policies applied in the preparation of these syndicate annual accounts are set out below. All amounts presented are stated in US dollars, being the syndicate's functional currency, and in thousands, unless noted otherwise.

### Use of estimates and judgements

The preparation of syndicate annual accounts requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the syndicate annual accounts are described in this statement of accounting policies.

The most critical estimate included within the syndicate's financial position is the estimate for losses incurred but not reported. The total estimate as at 31 December 2019 is included within claims outstanding on the balance sheet.

Other key estimates contained within the syndicate close process are premium estimates and the earning pattern of recognising premium over the life of the contract. In the syndicate the premium written is initially based on the estimated premium income (EPI) of each contract. Where premium is sourced through binders, the binder EPI is pro-rated across the binder period. This is done on a straight-line basis unless the underlying writing pattern from the prior period indicates the actual underlying writing pattern is materially different. The underwriters adjust their EPI estimates as the year of account matures. As the year of account closes premiums are adjusted to match the actual signed premium. An accrual for estimated future reinstatement premiums is retained. Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

The syndicate annual accounts have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

#### a) Premiums

Gross premiums written represent premiums on business commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for premiums from contracts entered into during the course of the year. Gross premiums written are stated before deduction of brokerage, taxes, duties levied on premiums and other deductions.

#### b) Unearned premiums

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in the following or subsequent financial periods, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

#### c) Claims incurred and reinsurers' share

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported (IBNR) and future claims handling provisions. Reinsurance recoveries are accounted for in the same period as the incurred claims for the related business.

## Notes to the syndicate annual accounts *continued*

### 1 Accounting policies *continued*

The provision for claims comprises amounts set aside for claims advised and IBNR. The IBNR amount is based on estimates calculated using widely accepted statistical techniques (e.g. chain ladder) which are reviewed annually by external actuaries. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. For more recent underwriting, regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating claims provisions are that the past experience is a reasonable predictor of likely future claims development and that the rating and other models used to analyse current business are a fair reflection of the likely level of ultimate claims to be incurred.

The reinsurers' share of provisions for claims is based on calculated amounts for outstanding claims and projections for IBNR, net of estimated irrecoverable amounts having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

#### d) Liability adequacy testing

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of DAC and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ('unexpired risk provision'). There is currently no unexpired risk provision.

#### e) Acquisition costs

Acquisition costs comprise brokerage, premium levy and staff-related costs of the underwriters acquiring new business and renewing existing contracts. The proportion of acquisition costs in respect of unearned premiums is deferred at the balance sheet date and recognised in later periods when the related premiums are earned.

#### f) Foreign currencies

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the syndicate considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in statement of comprehensive income. Nonmonetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction.

In previous years, amounts arising from foreign exchange translation between the converted sterling balances reported to Lloyd's of London and the converted US dollar balances reported in the statutory accounts were recognised in other comprehensive income in order to achieve consistency between the two reports. A more direct interpretation of the requirements of FRS 102 would require these amounts to be recognised through profit or loss.

This revised interpretation has been applied in the current and prior period. For the year ended 31 December 2018, a reclassification of \$441.5k has been made between loss on foreign exchange in the profit and loss account and foreign exchange loss on brought forward reserves in the statement of other comprehensive income. Subsequently the statement of other comprehensive income is no longer required as the loss on brought forward reserves is nil, therefore we have applied a change in accounting policy to combine the profit and loss account and statement of other comprehensive income into a single statement of comprehensive income.

#### g) 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 (currently at 20%) 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 US Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'other debtors'. No provision has been made for any other overseas tax payable by members on underwriting results.

#### h) Profit commission

Profit commission is charged by the ceding syndicates at a rate of 20% of the profit after an expense allowance deduction on a year of account basis subject to the operating of a two-year deficit clause. This is charged to the syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

## 1 Accounting policies *continued*

### i) Ceded reinsurance

These are contracts entered into by the syndicate with reinsurers under which the syndicate is compensated for losses on contracts issued by the syndicate and that meet the definition of an insurance contract. Insurance contracts entered into by the syndicate under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

Any benefits to which the syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The syndicate assesses its reinsurance assets for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the profit or loss account.

### j) Insurance debtors and creditors

Insurance debtors and creditors are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. These are classified as insurance debtors and creditors as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance debtors are measured at amortised cost less any provision for impairments. Insurance creditors are stated at amortised cost less any impairment losses.

### k) Cash at bank and in hand

This consists of cash at bank and in hand and deposits held at call with banks.

### l) Other debtors

Other debtors are carried at amortised cost less any impairment losses.

### m) Other creditors

Other creditors are stated at amortised cost determined on the effective interest rate method.

### n) Investment return

Investment return consists of the syndicate's share of the host syndicate's investment return. 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.

## 2 Risk management

The syndicate has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The sections below outline the syndicate's risk appetite and explain how it defines and manages each category of risk.

### 2.1 Insurance risk

The syndicate's insurance business assumes the risk of loss from persons or organisations that are directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, reinsurance, claims management and reserving. Each element is considered below:

#### a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the syndicate:

- cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

## Notes to the syndicate annual accounts *continued*

### 2 Risk management *continued*

The annual business plans for each underwriting team reflect the syndicates's underwriting strategy, and set out the classes of business, the territories and the industry sectors in which business is to be written. These plans are approved by the board of Beazley Furlonge Limited and monitored by the monthly underwriting committee.

The host syndicates' underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include but are not limited to the financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses.

The syndicate also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

To address this, the syndicate sets out the exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. This is monitored through regular calculation of RDS. The aggregate position is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations to which the syndicate is exposed.

The syndicate uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models.

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. Where possible the syndicate measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

To manage underwriting exposures, the syndicate has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2019, the normal maximum line that any one underwriter could commit the host syndicate's to was \$35.0m. In most cases, maximum lines for classes of business were much lower than this.

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters and peer review for all risks exceeding individual underwriters authority limits. Exception reports are also run regularly to monitor compliance.

All underwriters also have a right to refuse renewal or change the terms and conditions of insurance contracts upon renewal. Rate monitoring details, including limits, deductibles, exposures, terms and conditions and risk characteristics are also captured and the results are combined to monitor the rating environment for each class of business.

The syndicate also has exposure to man-made claim aggregations, such as those arising from terrorism and data breach events. The host syndicate choose to underwrite data breach insurance within the CyEx division using it's team of specialist underwriters, claims managers and data breach services managers. Other than for data breach, the host syndicates' preference is to exclude cyber exposure where possible.

#### b) Reinsurance risk

Reinsurance risk to the syndicate arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed separately below.

The syndicate's reinsurance programmes complement the underwriting team business plans and seek to protect syndicate capital from an adverse volume or volatility of claims on both a per risk and per event basis. In some cases the syndicate deems it more economic to hold capital than purchase reinsurance. These decisions are regularly reviewed as an integral part of the business planning and performance monitoring process.

The group's reinsurance security committee ('RSC') examines and approves all reinsurers to ensure that they possess suitable security. The syndicate's ceded reinsurance team ensures that these guidelines are followed, undertakes the administration of reinsurance contracts, monitors and instigates our responses to any erosion of the reinsurance programmes.

## 2 Risk management *continued*

### c) Claims management risk

Claims management risk may arise within the syndicate in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Beazley brand and undermine its ability to win and retain business or incur punitive damages. These risks can occur at any stage of the claims life-cycle.

The syndicate's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business's broader interests. Case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

### d) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the syndicate where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debt in provisions.

To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognised techniques to project gross premiums written, monitor claims development patterns and stress test ultimate insurance liability balances. An external independent actuary also performs an annual review to produce a statement of actuarial opinion for the syndicate.

The objective of the syndicate's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The estimates of gross premiums written and claims prepared by the actuarial department are used through a formal quarterly peer review process to independently test the integrity of the estimates produced by the underwriting teams for each class of business. These meetings are attended by senior management, senior underwriters, actuarial, claims, and finance representatives.

A five percent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity:

|   | 5% increase in net claims reserves |                | 5% decreases in net claims reserves |                |
|---|------------------------------------|----------------|-------------------------------------|----------------|
|   | 2019<br>\$'000                     | 2018<br>\$'000 | 2019<br>\$'000                      | 2018<br>\$'000 |
| Sensitivity to insurance risk (claims reserves) |                                    |                |                                     |                |
| Impact on profit and equity                     | (3,964.3)                          | (3,550.2)      | 3,964.3                             | 3,550.2        |

The syndicate also monitors its exposure to insurance risk by location. The below table provides an analysis of the geographical breakdown of its written premiums.

|                     | 2019<br>%  | 2018<br>%  |
|---------------------|------------|------------|
| US                  | 69         | 60         |
| Europe <sup>1</sup> | 12         | 18         |
| Other               | 19         | 22         |
|                     | <b>100</b> | <b>100</b> |

1 Includes UK.

### 2.2 Financial risk

The focus of financial risk management for the host syndicates is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts.

### 2.3 Strategic risk

This is the risk that Beazley Furlonge Limited's strategy is inappropriate or that Beazley Furlonge Limited is unable to implement its strategy. Where events supersede the strategic plan this is escalated at the earliest opportunity through Beazley Furlonge Limited's monitoring tools and governance structure.

### 2.4 Market risk

Market risk arises where the value of assets and liabilities changes as a result of movements in foreign exchange rates and interest rates.

## Notes to the syndicate annual accounts *continued*

### 2 Risk management *continued*

#### Foreign exchange risk

The functional currency of the syndicate is US dollars and the presentation currency in which the syndicate reports its results is US dollars. The effect of this on foreign exchange risk is that the syndicate is exposed to fluctuations in exchange rates for non-dollar denominated transactions and net assets.

The syndicate has four main settlement currencies: US dollars, sterling, Canadian dollars and euro. Transactions in all currencies are converted to US dollars on initial recognition and revalued at the reporting date. Remaining foreign exchange risk is actively managed as described below.

The syndicate's assets are broadly matched by currency to the principal underlying settlement currencies of its insurance liabilities. This helps mitigate the risk that future movements in exchange rates would materially impact the syndicate's assets required to cover its insurance liabilities.

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

|                         | UK £<br>\$'000   | CAD \$<br>\$'000 | EUR €<br>\$'000 | Subtotal<br>\$'000 | US \$<br>\$'000   | Total<br>\$'000   |
|-------------------------|------------------|------------------|-----------------|--------------------|-------------------|-------------------|
| <b>31 December 2019</b> |                  |                  |                 |                    |                   |                   |
| Total assets            | 39,689.6         | 781.7            | 4,912.5         | 45,383.8           | 109,367.6         | 154,751.4         |
| Total liabilities       | (42,418.3)       | (2,380.0)        | (4,740.3)       | (49,538.6)         | (138,093.9)       | (187,632.5)       |
| <b>Net assets</b>       | <b>(2,728.7)</b> | <b>(1,598.3)</b> | <b>172.2</b>    | <b>(4,154.8)</b>   | <b>(28,726.3)</b> | <b>(32,881.1)</b> |
| <b>31 December 2018</b> |                  |                  |                 |                    |                   |                   |
| Total assets            | 22,216.2         | (296.5)          | 4,796.0         | 26,715.7           | 97,060.5          | 123,776.2         |
| Total liabilities       | (19,246.9)       | (2,437.2)        | (2,042.2)       | (23,726.3)         | (113,982.8)       | (137,709.1)       |
| <b>Net assets</b>       | <b>2,969.3</b>   | <b>(2,733.7)</b> | <b>2,753.8</b>  | <b>2,989.4</b>     | <b>(16,922.3)</b> | <b>(13,932.9)</b> |

#### Sensitivity analysis

In 2019, the syndicate managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be entirely US dollar denominated. As part of this hedging strategy, exchange rate derivatives may be used to rebalance currency exposure. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

Fluctuations in the syndicate's trading currencies against the US dollar would result in a change to profit and to net asset value. The table below gives an indication of the impact on profit and net assets of a percentage change in relative strength of US dollar against the value of sterling, Canadian dollar and euro, simultaneously. The analysis is based on the current information available and an assumption that the impact of foreign exchange on non-monetary items will be nil.

|  | Impact on profit<br>for the year ended |             | Impact on net assets |             |
|--|--|-------------|----------------------|-------------|
|  | 2019<br>\$m                            | 2018<br>\$m | 2019<br>\$m          | 2018<br>\$m |
| <b>Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar</b> |  |             |                      |             |
| Dollar weakens 30% against other currencies  | (1.2)                                  | 0.9         | (1.2)                | 0.9         |
| Dollar weakens 20% against other currencies  | (0.8)                                  | 0.6         | (0.8)                | 0.6         |
| Dollar weakens 10% against other currencies  | (0.4)                                  | 0.3         | (0.4)                | 0.3         |
| Dollar strengthens 10% against other currencies  | 0.4                                    | (0.3)       | 0.4                  | (0.3)       |
| Dollar strengthens 20% against other currencies  | 0.8                                    | (0.6)       | 0.8                  | (0.6)       |
| Dollar strengthens 30% against other currencies  | 1.2                                    | (0.9)       | 1.2                  | (0.9)       |

#### Interest rate risk

The syndicate receives an investment return from the host syndicates. The syndicate is exposed to movement in interest rates.

#### Price risk

This is not a material risk to the syndicate.

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## 2 Risk management *continued*

### 2.5 Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events.

There are a number of business activities for which the syndicate uses or is exposed to via the host syndicates, the services of a third-party company, such as data entry and credit control. These service providers are selected against rigorous criteria and formal service level agreements are in place, and regularly monitored and reviewed.

Beazley Furlonge Limited also recognises that it is necessary for people, systems and infrastructure to be available to support the syndicate's operations and has therefore taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. The syndicate operates a formal disaster recovery plan which, in the event of an incident, allows the movement of critical operations to an alternative location within 24 hours.

Beazley Furlonge Limited actively manages operational risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. Beazley Furlonge Limited also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.

Key components of Beazley Furlonge Limited's operational control environment include:

- Solvency capital requirement 'SCR' modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

### 2.6 Credit risk

Credit risk arises from the failure of another party to perform its financial or contractual obligations to the syndicate or host syndicate in a timely manner. The primary sources of credit risk for the syndicate are:

- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the host syndicate; and
- cash at bank and in hand.

The syndicate's core business is to accept significant insurance risk and the appetite for other risks is low. This protects the syndicate's capital from erosion so that it can meet its insurance liabilities.

The syndicate and host syndicates limit exposure to a single counterparty or a group of counterparties and analyse the geographical locations of exposures when assessing credit risk.

An approval system also exists for all new brokers, and broker performance is carefully monitored by the host syndicates. Regular exception reports highlight trading with non-approved brokers, and the host syndicates' credit control function frequently assesses the ageing and collectability of debtor balances. Any large, aged items are prioritised and where collection is outsourced, incentives are in place to support these priorities.

The syndicate has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the RSC, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently.

## Notes to the syndicate annual accounts *continued*

### 2 Risk management *continued*

To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. These ratings have been categorised below as used for Lloyd's reporting:

|        | A.M. Best | Moody's     | S&P         |
|--------|-----------|-------------|-------------|
| Tier 1 | A++ to A- | Aaa to A3   | AAA to A-   |
| Tier 2 | B++ to B- | Baa1 to Ba3 | BBB+ to BB- |
| Tier 3 | C++ to C- | B1 to Caa   | B+ to CCC   |
| Tier 4 | D,E,F,S   | Ca to C     | R,(U,S) 3   |

The following tables summarise the syndicate's concentrations of credit risk:

|   | Tier 1<br>\$'000 | Tier 2<br>\$'000 | Tier 3<br>\$'000 | Tier 4<br>\$'000 | Unrated<br>\$'000 | Total<br>\$'000 |
|---|------------------|------------------|------------------|------------------|-------------------|-----------------|
| 31 December 2019                        |                  |                  |                  |                  |                   |                 |
| Reinsurers' share of outstanding claims | 46,038.8         | -                | -                | -                | 1,062.6           | 47,101.4        |
| Reinsurance debtors                     | -                | -                | -                | -                | 92.5              | 92.5            |
| Cash at bank and in hand                | -                | -                | -                | -                | 421.3             | 421.3           |
| <b>Total</b>                            | <b>46,038.8</b>  | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>1,576.4</b>    | <b>47,615.2</b> |

|   | Tier 1<br>\$'000 | Tier 2<br>\$'000 | Tier 3<br>\$'000 | Tier 4<br>\$'000 | Unrated<br>\$'000 | Total<br>\$'000 |
|---|------------------|------------------|------------------|------------------|-------------------|-----------------|
| 31 December 2018                        |                  |                  |                  |                  |                   |                 |
| Reinsurers' share of outstanding claims | 26,188.1         | -                | -                | -                | 490.1             | 26,678.2        |
| Reinsurance debtors                     | -                | -                | -                | -                | 2.3               | 2.3             |
| Cash at bank and in hand                | -                | -                | -                | -                | 185.5             | 185.5           |
| <b>Total</b>                            | <b>26,188.1</b>  | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>677.9</b>      | <b>26,866.0</b> |

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets.

The syndicate has no insurance debtors and reinsurance assets that are past due but not impaired at the reporting date.

A proportion of syndicate 6107's reinsurance recoverable is collateralised through Letters of Credit and trust funds pledged in its favour. This reduces the syndicate's exposure to credit risk related to reinsurance debtors. At 31 December 2019, these are valued at \$43.7m, of which \$8.3m is collateralised (2018: \$2.9m collateralised).

#### 2.7 Regulatory and legal risk

Regulatory and legal risk is the risk arising from not complying with regulatory and legal requirements. The operations of Beazley Furlonge Limited are subject to legal and regulatory requirements within the jurisdictions in which it operates and Beazley Furlonge Limited's compliance function is responsible for ensuring that these requirements are adhered to.

#### 2.8 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. As syndicate 6107 is a special purpose syndicate, liquidity risk is not material to the syndicate.

#### 2.9 Senior management responsibilities

Management stretch is the risk that business growth might result in an insufficient or overly complicated management team structure, thereby undermining accountability and control within the syndicate. As the syndicate expands its worldwide business in the UK, US, Europe and Asia, management stretch may make the identification, analysis and control of risks more complex. On a day-to-day basis, Beazley Furlonge Limited's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately co-ordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm low risk tolerance by aligning interests to ensure that routine activities, projects and other initiatives are implemented to benefit and protect resources of both local business segments and the syndicate as a whole.

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## 2 Risk management *continued*

### 2.10 Capital management

#### Capital framework at Lloyd's

The Society of 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.

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 6107 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 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 applied for 2019 was 35% (2018: 35%) of the member's SCR 'to ultimate'.

#### Provision of capital by members

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) and/or as the member's share of the solvency II members' balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 15, represent resources available to meet members' and Lloyd's capital requirements.

## 3 Segmental analysis

All risks were underwritten in the UK and relate to property reinsurance and cyber business.

## Notes to the syndicate annual accounts *continued*

### 4 Net operating expenses

|                                      | 2019<br>\$'000  | 2018<br>\$'000  |
|--------------------------------------|-----------------|-----------------|
| Acquisition costs                    | 7,887.3         | 8,692.7         |
| Change in deferred acquisition costs | (407.1)         | (301.8)         |
| Administrative expenses              | 5,310.3         | 4,358.5         |
|                                      | <b>12,790.5</b> | <b>12,749.4</b> |

Administrative expenses include:

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| Fees payable to the syndicate's auditor for the audit of these annual accounts | 13.5           | 14.3           |
| Fees payable to the syndicate's auditor and its associates in respect of:      |                |                |
| Other services pursuant to legislation   | 60.8           | 37.0           |
|  | <b>74.3</b>    | <b>51.3</b>    |

### 5 Net investment income

|                        | 2019<br>\$'000 | 2018<br>\$'000 |
|------------------------|----------------|----------------|
| <b>Interest income</b> | <b>1,526.7</b> | <b>1,917.4</b> |

### 6 Other charges

|   | 2019<br>\$'000 | 2018<br>\$'000 |
|---|----------------|----------------|
| Profit commissions paid to syndicate 623/2623 | -              | 189.7          |

### 7 Other debtors

|                                | 2019<br>\$'000  | 2018<br>\$'000  |
|--------------------------------|-----------------|-----------------|
| Amount due from syndicate 2623 | 65,541.7        | 65,124.3        |
| Amount due from members        | 543.2           | 472.6           |
|                                | <b>66,084.9</b> | <b>65,596.9</b> |

These balances are due within one year.

### 8 Cash and cash equivalents

|                                 | 2019<br>\$'000 | 2018<br>\$'000 |
|---------------------------------|----------------|----------------|
| <b>Cash at bank and in hand</b> | <b>421.3</b>   | <b>185.5</b>   |

### 9 Other creditors

|                                   | 2019<br>\$'000  | 2018<br>\$'000  |
|-----------------------------------|-----------------|-----------------|
| Amount due to syndicate 623       | 25,142.9        | 12,727.9        |
| Sundry debtors including taxation | 1.3             | -               |
|                                   | <b>25,144.2</b> | <b>12,727.9</b> |

These balances are due within one year.

## 10 Technical provisions

|  | Provision<br>for unearned<br>premium<br>outstanding<br>\$'000 | Claims<br>\$'000 |
|--|---|------------------|
| <b>Gross technical provisions</b>                |   |                  |
| As at 1 January 2019                             | 20,021.4  | 97,681.3         |
| Movement in the provision                        | 6,772.0   | 28,342.1         |
| Exchange adjustments                             | 149.8   | 363.2            |
| <b>As at 31 December 2019</b>                    | <b>26,943.2</b>   | <b>126,386.6</b> |
| <b>Reinsurers' share of technical provisions</b> |   |                  |
| As at 1 January 2019                             | 4,545.6   | 26,678.2         |
| Movement in the provision                        | (2,058.5)   | 20,408.9         |
| Exchange adjustments                             | 0.3   | 14.4             |
| <b>As at 31 December 2019</b>                    | <b>2,487.4</b>  | <b>47,101.5</b>  |
| <b>Net technical provisions</b>                  |   |                  |
| As at 1 January 2019                             | 15,475.8  | 71,003.1         |
| <b>As at 31 December 2019</b>                    | <b>24,455.8</b>   | <b>79,285.1</b>  |
| <b>Gross technical provisions</b>                |   |                  |
| As at 1 January 2018                             | 17,373.7  | 71,604.1         |
| Movement in the provision                        | 2,843.7   | 26,434.0         |
| Exchange adjustments                             | (196.0)   | (356.8)          |
| <b>As at 31 December 2018</b>                    | <b>20,021.4</b>   | <b>97,681.3</b>  |
| <b>Reinsurers' share of technical provisions</b> |   |                  |
| As at 1 January 2018                             | 4,495.9   | 18,239.1         |
| Movement in the provision                        | 78.8  | 8,473.5          |
| Exchange adjustments                             | (29.1)  | (34.4)           |
| <b>As at 31 December 2018</b>                    | <b>4,545.6</b>  | <b>26,678.2</b>  |
| <b>Net technical provisions</b>                  |   |                  |
| As at 1 January 2018                             | 12,877.8  | 53,365.0         |
| <b>As at 31 December 2018</b>                    | <b>15,475.8</b>   | <b>71,003.1</b>  |

## Notes to the syndicate annual accounts *continued*

### 10 Technical provisions *continued*

| Gross ultimate claims                             | 2010<br>%    | 2011<br>%    | 2012<br>%    | 2013<br>%    | 2014<br>%    | 2015<br>%      | 2016<br>%      | 2017<br>%       | 2018<br>%       | 2019<br>%       |                  |
|---|--------------|--------------|--------------|--------------|--------------|----------------|----------------|-----------------|-----------------|-----------------|------------------|
| <b>Total</b>                                      |              |              |              |              |              |                |                |                 |                 |                 |                  |
| 12 months   | 58.0%        | 53.0%        | 60.9%        | 58.5%        | 61.0%        | 65.0%          | 66.3%          | 116.7%          | 90.6%           | 91.6%           |                  |
| 24 months   | 144.3%       | 72.9%        | 36.8%        | 44.9%        | 32.5%        | 29.5%          | 37.0%          | 119.0%          | 111.7%          |                 |                  |
| 36 months   | 126.2%       | 67.3%        | 31.6%        | 42.6%        | 30.7%        | 20.9%          | 38.4%          | 121.2%          |                 |                 |                  |
| 48 months   | 122.6%       | 62.5%        | 30.6%        | 41.7%        | 27.7%        | 21.4%          | 37.1%          |                 |                 |                 |                  |
| 60 months   | 126.8%       | 61.9%        | 31.3%        | 39.1%        | 27.6%        | 21.8%          |                |                 |                 |                 |                  |
| 72 months   | 127.3%       | 61.8%        | 31.3%        | 38.8%        | 27.5%        |                |                |                 |                 |                 |                  |
| 84 months   | 127.0%       | 57.9%        | 31.4%        | 38.0%        |              |                |                |                 |                 |                 |                  |
| 96 months   | 126.1%       | 57.9%        | 31.2%        |              |              |                |                |                 |                 |                 |                  |
| 108 months  | 123.6%       | 58.3%        |              |              |              |                |                |                 |                 |                 |                  |
| 120 months  | 123.7%       |              |              |              |              |                |                |                 |                 |                 |                  |
| Total ultimate losses (\$'000)                    | 19,639.6     | 8,746.7      | 4,527.5      | 9,624.8      | 7,281.4      | 9,920.4        | 17,087.4       | 77,523.7        | 80,559.9        | 71,382.0        | 306,293.4        |
| Less paid claims (\$'000)                         | (19,114.7)   | (8,613.1)    | (3,926.5)    | (9,405.4)    | (6,983.2)    | (8,637.8)      | (13,223.1)     | (51,116.0)      | (38,279.2)      | (547.9)         | (159,846.9)      |
| Less unearned portion of ultimate losses (\$'000) | -            | -            | -            | -            | -            | -              | -              | -               | (485.4)         | (19,574.5)      | (20,059.9)       |
| <b>Gross claims liabilities (\$'000)</b>          | <b>524.9</b> | <b>133.6</b> | <b>601.0</b> | <b>219.4</b> | <b>298.2</b> | <b>1,282.6</b> | <b>3,864.3</b> | <b>26,407.7</b> | <b>41,795.3</b> | <b>51,259.6</b> | <b>126,386.6</b> |

**10 Technical provisions** *continued*

| Net ultimate claims                               | 2010<br>%    | 2011<br>%    | 2012<br>%    | 2013<br>%    | 2014<br>%    | 2015<br>%    | 2016<br>%      | 2017<br>%       | 2018<br>%       | 2019<br>%       |                 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Total</b>                                      |              |              |              |              |              |              |                |                 |                 |                 |                 |
| 12 months   | 58.0%        | 53.0%        | 60.9%        | 66.7%        | 58.9%        | 63.5%        | 65.1%          | 100.8%          | 89.7%           | 78.4%           |                 |
| 24 months   | 144.3%       | 72.9%        | 45.8%        | 53.5%        | 36.9%        | 30.0%        | 36.6%          | 110.9%          | 94.0%           |                 |                 |
| 36 months   | 126.2%       | 67.3%        | 41.4%        | 50.9%        | 35.8%        | 22.0%        | 40.2%          | 109.8%          |                 |                 |                 |
| 48 months   | 122.6%       | 62.5%        | 40.2%        | 49.7%        | 33.7%        | 22.8%        | 37.2%          |                 |                 |                 |                 |
| 60 months   | 126.8%       | 61.9%        | 41.0%        | 46.7%        | 33.4%        | 23.0%        |                |                 |                 |                 |                 |
| 72 months   | 127.3%       | 61.8%        | 41.1%        | 46.4%        | 33.6%        |              |                |                 |                 |                 |                 |
| 84 months   | 127.0%       | 57.9%        | 41.1%        | 45.5%        |              |              |                |                 |                 |                 |                 |
| 96 months   | 126.1%       | 57.9%        | 40.9%        |              |              |              |                |                 |                 |                 |                 |
| 108 months  | 123.6%       | 58.3%        |              |              |              |              |                |                 |                 |                 |                 |
| 120 months  | 123.7%       |              |              |              |              |              |                |                 |                 |                 |                 |
| Total ultimate losses (\$'000)                    | 19,639.6     | 8,746.7      | 4,526.9      | 9,623.1      | 7,261.4      | 9,271.4      | 14,706.5       | 57,938.6        | 55,509.6        | 51,986.1        | 239,209.9       |
| Less paid claims (\$'000)                         | (19,114.7)   | (8,613.1)    | (3,926.5)    | (9,405.4)    | (6,983.2)    | (8,552.5)    | (12,940.6)     | (41,912.0)      | (30,808.2)      | (546.6)         | (142,802.8)     |
| Less unearned portion of ultimate losses (\$'000) | -            | -            | -            | -            | -            | -            | -              | -               | (202.6)         | (16,919.4)      | (17,122.0)      |
| <b>Net claims liabilities (\$'000)</b>            | <b>524.9</b> | <b>133.6</b> | <b>600.4</b> | <b>217.7</b> | <b>278.2</b> | <b>718.9</b> | <b>1,765.9</b> | <b>16,026.6</b> | <b>24,498.8</b> | <b>34,520.1</b> | <b>79,285.1</b> |

## Notes to the syndicate annual accounts *continued*

### 11 Related parties transactions

The business written by syndicate 6107 is ceded from syndicates 2623 and 623, for which syndicate 6107 pays an override commission and a profit commission. The profit commission payable is disclosed in note 6 and the override commission is included within operating expenses.

As at the balance sheet date, the syndicate has no intercompany balances outstanding with the managing agent. There were also no amounts due at the 2018 balance sheet date.

The intercompany positions with other syndicates managed by Beazley Furlonge Limited at 31 December 2019 are disclosed above in note 7 (other debtors) and note 9 (other creditors).

Beazley Furlonge Limited, the managing agent of syndicate 6107, is a wholly-owned subsidiary of Beazley plc. The directors of Beazley Furlonge Limited during the period covered by these syndicate annual accounts who participated on syndicate 623, managed by the managing agent, indirectly through Beazley Staff Underwriting Limited are as follows:

| £                         | 2018 year<br>of account<br>underwriting<br>capacity | 2019 year<br>of account<br>underwriting<br>capacity | 2020 year<br>of account<br>underwriting<br>capacity |
|---------------------------|---|---|---|
| M R Bernacki <sup>1</sup> | 400,000   | N/A   | N/A   |
| M L Bride <sup>1</sup>    | 400,000   | N/A   | N/A   |
| A P Cox                   | 400,000   | 400,000   | 400,000   |
| S M Lake                  | N/A   | N/A   | 100,000   |
| D A Horton                | 400,000   | 400,000   | 400,000   |
| A S Pryde                 | N/A   | N/A   | 350,000   |
| I Fantozzi                | N/A   | N/A   | 350,000   |

1. M R Bernacki and M L Bride stepped down from the board during the year.

The directors of Beazley Furlonge Limited who held office during the period covered by this report have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622, 3623 and on the 2018 year of account 5623.

|   | Shareholding of<br>Beazley plc<br>as at<br>31 December<br>2019 | Shareholding of<br>Beazley plc<br>as at<br>31 December<br>2018 |
|---|--|--|
| DL Roberts <sup>1</sup> – chairman                  | 50,750   | 41,300   |
| M R Bernacki (resigned 30/04/2019)                  | N/A  | 293,433  |
| G P Blunden <sup>1</sup>                            | 27,000   | 40,000   |
| M L Bride (resigned 27/06/2019)                     | N/A  | 169,643  |
| S M Lake (appointed 14/06/2019)                     | 50,000   | N/A  |
| A P Cox – active underwriter                        | 905,082  | 785,756  |
| A Crawford-Ingle <sup>1</sup> (resigned 31/05/2019) | N/A  | 34,207   |
| N H Furlonge <sup>1</sup>                           | 355,584  | 355,584  |
| D A Horton – chief executive officer                | 1,834,136  | 1,716,766  |
| R Stuchbery <sup>1</sup>                            | 62,500   | 62,500   |
| K W Wilkins <sup>1</sup>                            | 14,000   | 14,000   |
| C C W Jones (appointed finance director 27/06/2019) | 43,384   | N/A  |
| A S Pryde (appointed 11/06/2019)                    | 130,227  | N/A  |
| A J Reizenstein <sup>1</sup> (appointed 09/04/2019) | 10,000   | N/A  |
| I Fantozzi (appointed 13/03/2019)                   | 115,376  | N/A  |

1. Non-executive director.

## 11 Related parties transactions *continued*

Beazley plc has the following service companies (managing general agents):

- Beazley Solutions Limited – (UK & Europe);
- Beazley Solutions International Limited – (Europe);
- Beazley Underwriting Pty Ltd – (Australia);
- Beazley USA Services, Inc. – (USA);
- Beazley Canada Limited – (Canada);
- Beazley Limited – (Hong Kong);
- Beazley Pte Limited – (Singapore); and
- Beazley Leviathan Limited – (UK & Europe).

All of the above companies are coverholders for syndicates 623 and 2623 ('the syndicates') and write business either directly for the syndicates or via Lloyd's Brussels. Beazley Underwriting Pty Ltd is also a coverholder for syndicate 3623.

The syndicates are charged commissions for the type of business underwritten by these companies. The commission is based on the costs incurred by these service companies in generating the business on behalf of the syndicates. As Beazley plc owns 100% of the share capital, it could receive profits from these entities in the future from the business underwritten by the names on syndicate 623.

In 2015, syndicates 623 and 2623 entered into a whole account quota share reinsurance agreement with a special purpose syndicate 6050. Syndicate 6050 is managed by Beazley Furlonge Limited and the syndicates receive commission income under this agreement. During 2017, syndicate 623 and 2623 entered into a commutation agreement with syndicate 6050 on the 2015 year of account contract. In 2018, syndicate 623 and 2623 also entered into a commutation agreement on the 2016 and 2017 year of account contracts with syndicate 6050.

## 12 Post balance sheet events

The following amounts are proposed to be transferred to members' personal reserve funds. The figures stated are after members' agents' fees incurred.

|                      | 2019<br>\$'000    | 2018<br>\$'000  |
|----------------------|-------------------|-----------------|
| 2016 year of account | -                 | 12,179.5        |
| 2017 year of account | (17,122.8)        | -               |
|                      | <b>(17,122.8)</b> | <b>12,179.5</b> |

## 13 Foreign exchange rates

The syndicate used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into US dollars, being the syndicate's presentational currency:

|                  | 2019    |               | 2018    |               |
|------------------|---------|---------------|---------|---------------|
|                  | Average | Year end spot | Average | Year end spot |
| Sterling         | 0.79    | 0.76          | 0.75    | 0.78          |
| Canadian dollars | 1.33    | 1.32          | 1.29    | 1.36          |
| Euro             | 0.89    | 0.90          | 0.84    | 0.87          |

# 2017 year of account for syndicate 6107

- 33 Managing agent's report
- 34 Statement of managing agent's responsibilities
- 35 Independent auditor's report to the members of syndicate 6107 – 2017 closed year of account
- 37 Profit or loss account
- 38 Balance sheet closed at 31 December 2019
- 39 Cash flow statement
- 40 Statement of changes in members' balances
- 41 Notes to the 2017 syndicate underwriting year accounts
- 45 Summary of closed year results at 31 December 2019



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# Managing agent's report

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The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 'Lloyd's Regulations') and in accordance with the Syndicate Accounting Byelaw (No.9 of 2005), including Financial Reporting Standard 102 (FRS 102) and Insurance Contracts 103 (FRS 103).

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2017 year of account which has been closed by reinsurance to close at 31 December 2019; consequently the balance sheet represents the assets and liabilities of the 2017 year of account and the profit or loss account reflect the transactions for that year of account during the 36 months period until closure.

## Directors

A list of directors of the managing agent who held office during the current year can be found on page 46 of the syndicate annual accounts.

## Disclosure of information to the auditor

The directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the syndicate's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the syndicate's auditor is aware of that information.

## Auditor

Following the audit tender carried out in 2018, Ernst & Young LLP have been appointed as the new external auditor for the 2019 accounting year, as approved by the Beazley Furlonge Ltd board on 24 May 2019. Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office, subject to the requirements of the Lloyd's advance consent regime.

On behalf of the board

C C W Jones  
Finance director

2 March 2020

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# Statement of managing agent's responsibilities

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The directors of the managing agent are responsible for preparing the syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw. They have elected to prepare the accounts in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the underwriting year accounts unless they are satisfied that they give a true and fair view of the result of the underwriting year at closure. In preparing these accounts, the directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected is used;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts;
- assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so. As explained in note 1 the directors of the managing agent have not prepared the underwriting year accounts on a going concern basis.

The directors of the managing agent are responsible for keeping adequate and proper accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the underwriting year accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

On behalf of the board

C C W Jones  
Finance director

2 March 2020

# Independent auditor's report to the members of syndicate 6107

*2017 closed year of account*

## Opinion

We have audited the syndicate underwriting year accounts for the 2017 year of account of syndicate 6107 (the 'syndicate') for the three years ended 31 December 2019 which comprise the Profit or Loss Account, the Balance Sheet, the Cash Flow Statement and the Statement of changes in Members' Balances and the related notes 1 to 11, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate underwriting year accounts:

- give a true and fair view of the loss for the 2017 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate underwriting year accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate underwriting year accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of matter – closure of the 2017 year of account

We draw attention to the Basis of preparation which explains that the 2017 year of account of syndicate 6107 has closed and all assets and liabilities transferred to the 2018 year of account by reinsurance to close at 31 December 2019.

As a result, the 2017 year of account of syndicate 6107 is no longer a going concern. The reinsurance to close occurs in the normal course of business for a syndicate year of account at the 36 months stage of development and the syndicate underwriting accounts have been prepared on the basis that the recorded assets and liabilities will be realised and discharged in the normal course of business.

Our opinion is not modified in respect of this matter.

## Other information

The other information comprises the information included in the annual report, other than the syndicate underwriting year accounts and our auditor's report thereon. The managing agent is responsible for the other information.

Our opinion on the syndicate underwriting year accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate underwriting year accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate underwriting year 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records

# Independent auditor's report to the members of syndicate 6107 *continued*

*2017 closed year of account*

## Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 11, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate underwriting accounts, the managing agent is responsible for assessing the syndicate's ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

## Auditor's responsibilities for the audit of the syndicate underwriting year accounts

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

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Wilson (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

2 March 2020

### Notes:

- 1 The maintenance and integrity of the Managing Agents web site is the responsibility of the manager the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Profit or loss account

2017 year of account for the 36 months ended 31 December 2019

|  | Notes | 2017 year<br>of account<br>\$'000 |
|--|-------|-----------------------------------|
| Gross premiums written   |       | 60,093.4                          |
| Outward reinsurance premiums   |       | (7,491.1)                         |
| <b>Earned premiums, net of reinsurance</b>                             |       | <b>52,602.3</b>                   |
| Allocated investment return transferred from the non-technical account |       | 1,171.6                           |
| Reinsurance to close premiums received                                 | 4     | 8,044.1                           |
|  |       | 9,215.7                           |
| Gross claims paid  |       | (54,670.3)                        |
| Reinsurers' share  |       | 8,385.4                           |
| <b>Claims incurred, net of reinsurance</b>                             |       | <b>(46,284.9)</b>                 |
| Reinsurance to close premiums payable                                  | 5     | (20,595.7)                        |
|  |       | (66,880.6)                        |
| Net operating expenses   | 6     | (11,721.7)                        |
| <b>Balance on the technical account</b>                                |       | <b>(16,784.3)</b>                 |
| Loss on foreign exchange   |       | (338.5)                           |
| Other charges  | 10    | –                                 |
| Investment income  |       | 1,171.6                           |
| Allocated investment return transferred to the technical account       |       | (1,171.6)                         |
| <b>Loss for the 2017 closed year of account</b>                        | 7     | <b>(17,122.8)</b>                 |
| Syndicate allocated capacity (£'000)                                   |       | 46,585.4                          |
| Loss for the 2017 closed year of account (£'000)                       |       | (12,994.5)                        |
| Return on capacity   |       | (27.9%)                           |

There are no recognised gains or losses in the accounting period other than those dealt with within the profit or loss account above.

# Balance sheet

*closed at 31 December 2019*

|   | Notes | 2017 year<br>of account<br>\$'000 |
|---|-------|-----------------------------------|
| <b>Assets</b>   |       |                                   |
| Debtors   | 8     | 2,937.4                           |
| Reinsurance recoveries anticipated on gross reinsurance<br>to close premiums payable to close the account | 5     | 10,031.0                          |
| Cash at bank and in hand  |       | 210.6                             |
| Other prepayments and accrued income  |       | 267.6                             |
| <b>Total assets</b>   |       | <b>13,446.6</b>                   |
| <b>Liabilities</b>  |       |                                   |
| Amounts due from members  | 9     | (17,122.8)                        |
| Reinsurance to close premium payable to close the account – gross amount                                  | 5     | 30,569.4                          |
| <b>Total liabilities</b>  |       | <b>13,446.6</b>                   |

The syndicate underwriting year accounts on pages 37 to 44 were approved by the board of directors on 2 March 2020 and were signed on its behalf by:

A P Cox  
Active underwriter

C C W Jones  
Finance director

# Cash flow statement

*2017 year of account for the 36 months ended 31 December 2019*

|   | 2017 year<br>of account<br>\$'000 |
|---|-----------------------------------|
| <b>Reconciliation of loss for the financial year to net cash inflow from operating activities</b> |                                   |
| Loss for the 2017 closed year of account  | (17,122.8)                        |
| Increase in gross reinsurance to close payable  | 30,569.4                          |
| Increase in reinsurers' share of reinsurance to close   | (10,031.0)                        |
| Increase in debtors   | (3,205.0)                         |
| Investment income received  | (1,171.6)                         |
| <b>Net cash flows from operating activities</b>   | <b>(961.0)</b>                    |
| Net purchases of financial instruments  |                                   |
| Investment income received  | 1,171.6                           |
| <b>Net cash from investing activities</b>   | <b>1,171.6</b>                    |
| Transfer to members in respect of underwriting participations                                     | -                                 |
| <b>Net cash from financing activities</b>   | <b>-</b>                          |
| <b>Net increase in cash and cash equivalents</b>  | <b>210.6</b>                      |
| Cash and cash equivalents at 1 January 2017   | -                                 |
| <b>Cash and cash equivalents at 31 December 2019</b>  | <b>210.6</b>                      |

# Statement of changes in members' balances

*for the 36 months ended 31 December 2019*

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|   | 2017 year<br>of account<br>\$'000 |
|---|-----------------------------------|
| Loss for the 2017 closed year of account            | 17,122.8                          |
| <b>Amounts due from members at 31 December 2019</b> | <b>17,122.8</b>                   |

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

# Notes to the syndicate underwriting year accounts

*closed at 31 December 2019*

## 1 Accounting policies

### Basis of preparation

These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') and applicable Accounting Standards in the United Kingdom, including Financial Reporting Standard 102 (FRS 102) and Insurance Contracts (FRS 103).

Whilst the directors of the managing agent have a reasonable expectation that the syndicate has adequate resources to continue in operational existence for the foreseeable future, these financial statements represent the participation of members in the 2017 year of account which closed on 31 December 2019. The accumulated profits of the 2017 year of account will be distributed shortly after publication of these accounts. Therefore the 2017 year of account is not continuing to trade and, accordingly, the directors have not adopted the going concern basis in the preparation of these accounts. The amounts reported would be identical if the accounts had been prepared on a going concern basis as the 2017 year of account will be closed by payment of a reinsurance to close premium, as outlined in note (a) below, which is consistent with the normal course of business for a Lloyd's syndicate and with the approach we have applied to earlier underwriting years.

The principal accounting policies applied in the preparation of these syndicate annual accounts are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in US dollars, being the syndicate's functional currency, and in thousands, unless noted otherwise.

### Underwriting transactions

- a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.
- b) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums in respect of reinsurance ceded are attributed to the same year as the original risk being protected. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified to the syndicate year of account.
- c) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.
- d) A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.
- e) The reinsurance to close premium is determined by reference to outstanding liabilities, including claims incurred but not yet reported, relating to the closed year and to all previous closed years reinsured therein. Although the estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium includes a provision for unearned premiums and unexpired risks at the balance sheet date, net of deferred acquisition costs.

### Comparatives

- f) Comparatives are not provided in these syndicate underwriting year accounts as each syndicate year of account is a separate annual venture.

## Notes to the syndicate underwriting year accounts *continued*

### 1 Accounting policies *continued*

#### Syndicate operating expenses

g) Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

h) Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned as follows:

- salaries and related costs – according to the staff time spent on dealing with syndicate matters;
- accommodation costs – proportioned based on the overall staff costs allocation above; and
- other costs – as appropriate in each case.

#### Taxation

i) 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 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. It is the responsibility of members to agree and settle their individual tax liabilities with the Inland Revenue.

j) No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

#### Basis of currency translation

k) The syndicate operates in four separate currency funds of sterling, euro, US dollars and Canadian dollars. Items going through the profit or loss account in sterling, euro and Canadian dollars are translated to US dollars at the three years' average rates of exchange. Assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. The euro, sterling and Canadian dollar three years' average exchange rates ruling at 31 December 2019 are euro 0.88, sterling 0.77 and Canadian dollar 1.31.

## 2 Risk management

The 2017 year of account has closed and all assets and liabilities have been transferred to a reinsuring year of account. The result for the year of account was declared in sterling so there is no exchange rate risk. To this extent, the risks that it is exposed to in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account as disclosed in the syndicate annual accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102. Full disclosures relating to these risks are provided in the syndicate annual accounts.

### 2.1 Capital management

Please refer to note 2.10 in syndicate 6107 annual accounts.

## 3 Segmental analysis

All risks were underwritten in the UK and relate to property reinsurance and cyber business.

#### 4 Reinsurance to close premiums received

|  | 2017 year<br>of account<br>\$'000 |
|--|-----------------------------------|
| Gross reinsurance to close premiums received             | 10,006.7                          |
| Reinsurance recoveries anticipated                       | (1,962.6)                         |
| <b>Reinsurance to close premiums received, from 2016</b> | <b>8,044.1</b>                    |

#### 5 Reinsurance to close premiums payable

|  | 2017 year<br>of account<br>\$'000 |
|--|-----------------------------------|
| Gross reinsurance to close premiums payable          | 30,635.0                          |
| Reinsurance recoveries anticipated                   | (10,039.3)                        |
| Foreign exchange                                     | (57.3)                            |
| <b>Reinsurance to close premiums payable to 2018</b> | <b>20,538.4</b>                   |

|  | Reported<br>\$'000 | IBNR<br>\$'000 | Total<br>\$'000 |
|--|--------------------|----------------|-----------------|
| Reinsurance to close premiums payable        | 16,700.6           | 13,868.8       | 30,569.4        |
| Reinsurance recoveries anticipated           | (2,353.9)          | (7,677.1)      | (10,031.0)      |
| <b>Reinsurance to close premiums payable</b> | <b>14,346.7</b>    | <b>6,191.7</b> | <b>20,538.4</b> |

#### 6 Net operating expenses

|                                    | 2017 year<br>of account<br>\$'000 |
|------------------------------------|-----------------------------------|
| Acquisition costs                  | 7,515.5                           |
| Administrative expenses            | 143.9                             |
| Members standard personal expenses | 4,062.3                           |
|                                    | <b>11,721.7</b>                   |

Administrative expenses include:

|                |      |
|----------------|------|
| Audit services | 17.3 |
|----------------|------|

#### 7 Analysis of the 2017 year of account result

|   | 2017 year<br>of account<br>\$'000 |
|---|-----------------------------------|
| Loss attributable to business allocated to the 2017 year of account | (17,465.8)                        |
| Surplus on the reinsurance to close for the 2016 year of account    | 343.0                             |
|   | <b>(17,122.8)</b>                 |

#### 8 Debtors

|                                   | 2017 year<br>of account<br>\$'000 |
|-----------------------------------|-----------------------------------|
| Amounts due from other syndicates | 13,145.7                          |
| Other debtors                     | (10,208.3)                        |
|                                   | <b>2,937.4</b>                    |

These balances are due within one year.

## Notes to the syndicate underwriting year accounts *continued*

### 9 Amounts due to members

|   | 2017 year<br>of account<br>\$'000 |
|---|-----------------------------------|
| Loss for the 2017 closed year of account            | (16,978.9)                        |
| Members standard personal expenses                  | (143.9)                           |
| <b>Amounts due from members at 31 December 2019</b> | <b>(17,122.8)</b>                 |

### 10 Other charges

|  | 2017 year<br>of account<br>\$'000 |
|--|-----------------------------------|
| Profit commission paid to syndicate 623/2623 | -                                 |
|  | -                                 |

### 11 Related party transactions

Please refer to page 30 of the syndicate annual accounts for further details of related party transactions for the 2017 year of account.

# Seven-year summary of closed year results

at 31 December 2019

|  | 2017    | 2016    | 2015    | 2014    | 2013    | 2012    | 2011    |
|--|---------|---------|---------|---------|---------|---------|---------|
| Syndicate allocated capacity – £'000                                   | 46,585  | 28,622  | 28,602  | 21,042  | 18,382  | 10,153  | 14,115  |
| Syndicate allocated capacity – \$'000                                  | 62,424  | 44,936  | 48,910  | 31,983  | 28,859  | 15,432  | 22,160  |
| Capacity utilised  | 84%     | 87%     | 79%     | 73%     | 83%     | 69%     | 65%     |
| Aggregate net premiums – \$'000  | 45,087  | 32,337  | 33,477  | 18,437  | 19,806  | 10,599  | 14,550  |
| Underwriting profit as a percentage of gross premiums                  | (26.2%) | 43.6%   | 68.2%   | 46.9%   | 34.5%   | 38.2%   | 40.5%   |
| Return on capacity   | (27.9%) | 33.3%   | 50.6%   | 29.1%   | 17.4%   | 32.8%   | 10.1%   |
| <b>Results for an illustrative £10,000 share</b>                       | \$      | \$      | \$      | \$      | \$      | \$      | \$      |
| Gross premiums   | 11,286  | 13,610  | 13,541  | 11,073  | 13,019  | 13,393  | 9,779   |
| Net premiums   | 9,678   | 11,298  | 11,705  | 8,762   | 10,775  | 10,439  | 9,779   |
| Reinsurance to close from an earlier account                           | 1,727   | 1,891   | 1,909   | 3,409   | 3,537   | 7,691   | 5,871   |
| Net claims   | (9,936) | (4,405) | (2,550) | (4,249) | (5,907) | (5,488) | (8,074) |
| Reinsurance to close the year of account                               | (4,421) | (2,856) | (1,826) | (2,734) | (3,919) | (6,746) | (5,201) |
| Underwriting profit  | (2,952) | 5,928   | 9,238   | 5,188   | 4,486   | 5,896   | 2,375   |
| (Loss)/profit on foreign exchange                                      | (19)    | (25)    | 201     | 1,081   | (141)   | (21)    | 342     |
| Syndicate operating expenses   | (926)   | (147)   | (920)   | (1,284) | (644)   | (859)   | (1,114) |
| Balance on technical account   | (3,897) | 5,756   | 8,519   | 4,985   | 3,701   | 5,016   | 1,603   |
| Gross investment return  | 252     | 552     | 274     | 99      | 55      | 101     | 79      |
| Profit before personal expenses  | (3,645) | 6,309   | 8,793   | 5,084   | 3,756   | 5,117   | 1,682   |
| <b>Illustrative personal expenses</b>                                  |         |         |         |         |         |         |         |
| Illustrative personal expenses   | (31)    | (60)    | (61)    | (77)    | (72)    | -       | (11)    |
| Managing agent's profit commission                                     | -       | (1,994) | (1,995) | (1,311) | (1,060) | -       | -       |
| Profit after illustrative profit commission and personal expenses (\$) | (3,676) | 4,255   | 6,737   | 3,696   | 2,624   | 5,117   | 1,671   |
| Profit after illustrative profit commission and personal expenses (£)  | (2,790) | 3,332   | 5,056   | 2,910   | 1,738   | 3,281   | 1,007   |

## Notes:

- 1 The illustrative profit commission and personal expenses are estimates of amounts which might be charged on an illustrative share of £10,000. The agency agreements for 1991 and subsequent years of account only provide for the deduction of fees and profit commission on behalf of the managing agent.
- 2 The effect of any minimum charges on personal expenses or deficit clauses on profit commission have been ignored.
- 3 Internal claims settlement expenses have been included in 'net claims'.
- 4 The above figures are stated before members' agents' fees.
- 5 Profit after illustrative profit commission and personal expenses is shown in dollars and converted to sterling at the closing rate.
- 6 Gross and net premium amounts shown above are net of brokerage expenses.

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# Managing agent corporate information

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Beazley Furlonge Limited has been the managing agent of syndicate 6107 throughout the period covered by this report and the registered office is Plantation Place South, 60 Great Tower Street, London EC3R 5AD.

## Directors

D L Roberts<sup>1</sup> chairman  
M R Bernacki (resigned 30/04/2019)  
G P Blunden<sup>1</sup>  
M L Bride (resigned 27/06/2019)  
S M Lake (appointed finance director 14/06/2019)  
A P Cox – active underwriter  
A Crawford-Ingle<sup>1</sup> (resigned 31/05/2019)  
N H Furlonge<sup>1</sup>  
D A Horton – chief executive officer  
R Stuchbery<sup>1</sup>  
K W Wilkins<sup>1</sup>  
C C W Jones (appointed 27/06/2019)  
A S Pryde (appointed 11/06/2019)  
A J Reizenstein<sup>1</sup> (appointed 09/04/2019)  
I Fantozzi (appointed 13/03/2019)

<sup>1</sup> Non-executive director.

## Company secretary

C P Oldridge

## Managing agent's registered office

Plantation Place South  
60 Great Tower Street  
London  
EC3R 5AD  
United Kingdom

## Registered number

01893407

## Auditor

Ernst & Young LLP  
25 Churchill Place  
London  
E14 5EY

## Banker

Deutsche Bank AG  
6 Bishopgate  
London  
EC2n 4DA



# Notes





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