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Syndicate 6130

Annual Report and Accounts 2019

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Underwriter's Report

Syndicate 6130 was established on 1st May 2016 as part of a strategic partnership between Chaucer and AXA Africa Speciality Risks to support the development of specialty insurance business in Africa. The partnership utilises AXA's African distribution network combined with the long standing underwriting expertise of Chaucer.

Underwriting performance

Following the decision to cease writing quota share re-insurance of Chaucer Syndicate 1084 from the 1st January 2019, the underwriting performance in 2019 is solely based on the development in the portfolio that existed at the end of 2018. The 2018 Year of Account is therefore the last Year of Account Syndicate 6130 participated on. Consequently, gross written premium is markedly down from \$28,437k in 2018, to \$(923)k, which represents movements on underwriter estimates during 2019. This was offset with better than expected loss performance, resulting in a release of \$1,737k in respect of prior period reserves.

Overall, the Syndicate generated an underwriting profit of \$1,628k (2018: \$1,366k). After investment income and other non – technical expenses, the profit for the year was \$2,593k (2018: \$1,740k). The combined ratio for 2019 was 72% (2018: 89%).

Underwriting outlook

As of the 1st January 2019, Syndicate 6130 no longer accepts new business and its scope of operation has been scaled back to one that is focused on managing exposure, liabilities and capital with a view to achieve full Syndicate closure on the 31st December 2020, in line with Lloyd's 3-year reporting requirements.



Ed Lines, Active Underwriter
Syndicate 6130
4 March 2020

Managing Agent's Report

The Directors of the Managing Agent present their report and the audited accounts for the year ended 31 December 2019.

This 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 ("Lloyd's Regulations 2008").

The Managing Agent

The Managing Agent is Chaucer Syndicates Limited, whose registered office is Plantation Place, 30 Fenchurch Street, London EC3M 3AD and whose registered number is 00184915.

Principal activities

This report covers the business of Syndicate 6130, which was established for the 2016 year of account as a Special Purpose Syndicate. The principal activity of the Syndicate is to underwrite quota share reinsurance of Chaucer Syndicate 1084 in respect of African specialty insurance and reinsurance business in the United Kingdom.

The quota share contracts with Chaucer Syndicate 1084 operate on a funds withheld basis.

The 2018 Year of Account is the last Year of Account on which Syndicate 6130 participated.

Review of the business and future developments

The Syndicate's key financial performance indicators during the year were as follows:

	2019	2018
	\$'000	\$'000
Gross written premiums	(923)	28,437
Total comprehensive income	2,593	1,740
Combined ratio ¹	72%	89%

¹The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. A lower combined ratio represents better performance.

Principal risks and uncertainties

The following paragraphs describe the principal risks and uncertainties facing the Syndicate.

Underwriting risk

As the Syndicate is not participating on any future Years of Account after 2018, it faces limited underwriting risk. This continues to diminish as on-risk policies expire.

The detailed stochastic modelling of underwriting risk, both gross and net of reinsurance, using dynamic financial analysis techniques, assists with the setting and management of risk appetite.

Large, single risk losses are the largest contributor to underwriting risk, this is a result of the low volumes of business, relatively high line sizes and low diversification between classes.

The Managing Agent uses Exceedance Probability (EP) curves as one of the tools for managing this risk. For a defined underwriting portfolio, an EP curve plots expected probability against loss size. This represents a sliding scale of risk appetite against associated exceedance probabilities.

Managing risk aggregation

The Managing Agent monitors the aggregation of underwriting exposure using specialist modelling software tools where appropriate. The Managing Agent monitors the Syndicate's loss exposure to a suite of natural and man-made catastrophe events (including the prescribed Lloyd's Realistic Disaster Scenarios) on a quarterly basis. Modelled loss caps are set at an underwriting business unit level for each event; this provides the underwriters with a practical tool for managing their exposures

Concentrations of risk

The Syndicate has exposure to losses arising through the aggregation of risks in geographical sectors due to the concentrated geographical nature of the business. Events giving rise to such aggregations are typically man-made and natural disasters such as political risk / violence events, earthquakes or weather-related disasters such as hurricanes, windstorms and typhoons. Other examples include major terrorism events.

As part of the risk management process, the Managing Agent assesses the Syndicate's exposures to Realistic Disaster Scenarios every quarter to enable it to monitor potential accumulations of underwriting exposure against a pre-determined suite of catastrophic and big loss events and to confirm no breach of underwriting risk appetite.

Maximum lines

Underwriters manage individual risks through adherence to set maximum line sizes.

Underwriting controls

The Managing Agent operates a number of underwriting controls, details of which are set out below.

Monitoring performance against plan

The Managing Agent manages Syndicate performance against plan through monthly reporting; utilising centrally prepared underwriting management information packs. The reports are provided to the Syndicate Management Committee ('SMC'), the Underwriting Committee and the Board of the Managing Agent. This control process ensures several layers of review for underwriting risks, with particular focus on pricing, loss ratio forecasts, risk aggregation, catastrophe modelling and reinsurance protection.

Emerging risks

An emerging risk is a risk that is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving, capital setting or the operational activities of the Managing Agent. The Managing Agent has a defined emerging risk process to identify and assess the potential impact of such risks.

Internal audit

The Managing Agent's internal audit function provides assurance over the performance of the underwriting controls.

Claims risk

While claims events are inherently uncertain and volatile, the Managing Agent's claims department is an experienced team covering a wide range of business classes. The Managing Agent has various management controls in place to mitigate claims risk; some of these controls are outlined below.

Claims settlement and reserving authority limits

The Managing Agent employs strict claims handling authority limits. All transactions in excess of an individual claims handler's authority are referred in a tiered approach to a colleague with the requisite knowledge and experience.

Peer Review

The Managing Agent currently commissions an external random peer review of its claims procedures on a quarterly basis. This review incorporates both qualitative and quantitative measures and findings are collated and reported to relevant committees.

Monthly reporting

Reports are produced for different aspects of the claims handling process, including significant movements, catastrophes, and static claims. These reports are communicated both within the business and with key external stakeholders, including Lloyd's Claims Management.

Management of external experts

The Managing Agent appoints third party loss adjusters, surveyors and legal advisors for claims investigation and assessment services. The development of long standing relationships with key experts and agreed Terms of Engagement aims to ensure that the Syndicate receives a high quality service. Direct contact with external experts is actively encouraged. However, this process is not exclusive. If no suitable expert exists on the

Managing Agent's panel for any one particular claim, an 'Expert Exception' process operates to ensure a timely appointment of an appropriate expert.

Reserving risk

The reserving policy for the Syndicate seeks to ensure appropriate allowance for reserving risk and consistency in reserving from year to year.

Reserves are set on a two tier hierarchical basis.

Tier 1: Actuarial best estimate reserves

Actuarial best estimate reserves are prepared on an underwriting year basis and are intended to be true best estimates, i.e. estimates of expected value claims reserves. These are the basis for internal reporting and the derivation of expected loss ratios for business planning.

The actuarial best estimate reserves are the responsibility of the Internal Signing Actuary. The Managing Agent's Actuarial Team calculates the reserves in conjunction with extensive discussions with underwriting, claims and reinsurance functions.

Tier 2: Syndicate reserves

Determination of Syndicate reserves is a two-stage process: first, they are determined on an underwriting year basis and then they are converted to an annually accounted basis.

(a) Underwriting year Syndicate reserves

Underwriting year Syndicate reserves are prepared on an underwriting year basis and equal the Tier 1 reserves plus any reserve risk loadings. The intention of such risk loadings is to match areas within the Syndicate where the perception is that there is a particularly high risk that the best estimate reserve may be inadequate. Such areas include, but are not limited to, the following:

- new classes of business
- classes where early development is materially better or worse than expected
- classes or events with abnormally skewed claim distributions
- claim events or reserving categories with a poorly understood distribution

To ensure consistency in the application of risk loadings, the starting point in their assessment is, where possible, formulaic. The formulaic risk loadings are adjusted wherever considered either excessive or understated. There may also be additional risk loadings in respect of risks not covered by the formulaic basis.

The underwriting year Syndicate reserves provide the basis for Syndicate results and forecasts.

(b) Annually accounted Syndicate reserves

Annually accounted Syndicate reserves are the underwriting year Syndicate reserves converted to an annually accounted basis, plus additional loadings.

The Managing Agent's Board approves all risk loadings within Syndicate reserves.

The assessment of actuarial best estimate reserves is a rolling quarterly process. The underwriting portfolio comprises a number of heterogeneous business types, each of which the analysis projects to ultimate. Where certain contracts or claim events obscure development trends, the analysis splits these out for separate review. The application of standard actuarial techniques to the historical attritional, large and catastrophe claims data supports the estimation of ultimate loss ratios. The analysis also draws on external data or market data or non-standard methodologies where appropriate.

Whenever actual development of premiums or claims within a reserving category during a quarter is materially different from expected development based on the existing methodology, then that methodology is reassessed and, where appropriate, amended. The analysis takes credit for reinsurance recoveries and provides for the possibility of reinsurer failure.

Reserving risk is controlled by the robust application of actuarial methodologies, stepped sign-off procedures, quarterly tracking of projected ultimate loss ratios and reassessment of methodologies where appropriate, regular dialogue between actuaries and practitioners and access to a history of loss data. Finally, explicit risk loadings are applied in respect of the areas of greatest risk within the reserve assessment

Although the risk loadings provide important protection against adverse developments in reserves, the degree of subjectivity in the reserving process, the exposure to unpredictable external influences (e.g. the legal environment) and the quantum of reserves relative to net tangible assets, mean that reserving remains a significant source of risk to the Syndicate.

Financial Risks

Credit risk

The Managing Agent reviews all reinsurer counterparties with whom the Syndicate wished to conduct business and sets credit thresholds for the total potential recoveries due from each reinsurer. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and standing in the market. Thereafter, management of reinsurer credit risk follows active and regular review of the credit rating and financial exposure to all approved reinsurers.

The Syndicate predominantly purchased reinsurance from reinsurers rated strong or better by Standard & Poor's (or equivalent). Maximum exposures per reinsurer are set in response to a reinsurer's rating and net assets.

Broker credit risk limits are also determined depending on the grading of the relevant broker and exposures monitored against limits on a monthly basis.

Investment risk

The Syndicate currently operates on a funds withheld basis with a notional investment return accrued based on the amount of funds withheld. This notional return is calculated using a market quoted floating interest rate and an additional fixed 'spread'. This limits the amount of investment risk the Syndicate is exposed to.

The preservation of capital and maintenance of sufficient liquidity are at the heart of the financial market risk policies adopted by the Managing Agent.

Operational risk

This is the risk that events caused by people, processes, systems or external events lead to losses to the Syndicate. The Managing Agent seeks to manage this risk through business performance measures, formal disaster recovery and business continuity planning and other governing procedures which are reviewed through a structured programme of testing of processes and systems by Internal Audit and other assurance processes.

Regulatory and legal risk

Regulatory risk is the risk of loss or reputational damage owing to a breach of regulatory and legal requirements or failure to respond to regulatory change.

The Managing Agent is required to comply with the requirements of the Prudential Regulatory Authority, Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators. The Managing Agent has a Compliance Officer, who monitors regulatory developments and assesses the impact on agency policy. The Compliance function also undertakes a compliance-monitoring programme.

Legal risk is the risk that exposes the Managing Agent to actual or potential legal proceedings. The Managing Agent has legal risk resource which monitors legal developments and assesses impact on the business.

Conduct risk

Conduct risk is the risk of treating our customers unethically or unfairly by delivering inappropriate outcomes due to improper attitudes, systems, controls and governance. The Managing Agent operates a suitable risk management and governance framework across the Syndicate which monitors the various areas of potential exposure to conduct risk matters and ensures appropriate design and performance of controls and the effective escalation and resolution of items as required.

Staff matters

All the staff of the Managing Agent are employed by Chaucer Underwriting Services Limited (CUSL). CUSL considers its staff to be a key resource and seeks to provide a good working environment for its staff that is rewarding and safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

Environmental matters

The Managing Agent does not consider that a business such as a syndicate at Lloyd's has a large adverse impact upon the environment. As a result the agent does not manage its business by reference to any environmental key performance indicators.

Brexit

The potential effects of Britain's decision to leave the European Union (EU) and related consequences will be impacted by the following risk factors: (i) volatile financial market conditions in the U.K. and the European market; and (ii) foreign exchange volatility.

The Managing Agent has implemented a number of measures and controls to mitigate the impact of Brexit and to allow for continuity of operations following Britain's exit from the EU, this includes the ability to place business through Lloyd's Brussels.

Syndicate 6130

Directors of the Managing Agent

The Directors set out below held office throughout the year ended 31 December 2019 and up to the date of signing the annual accounts, unless otherwise stated.

D C Bendle, Chief Operating Officer
R J Callan, Chief Financial Officer
T J Carroll, Independent Non-executive Director (resigned 15 March 2019)
J Faure, Non-executive Director
J Fowle, Chief Underwriting Officer and Chief Executive Officer
P M Shaw, Chief Risk Officer
C M Stooke, Chairman and Independent Non-executive Director
L S Watkins, Non-executive Director (appointed 31 January 2020)
Dr H Zuo, Non-executive Director (appointed 13 March 2019)

Managing Agent's company secretary

R N Barnett

Managing Agent's registered office

Plantation Place
30 Fenchurch Street
London EC3M 3AD

Managing Agent's registered number

00184915

Managing Agent's independent auditors

PricewaterhouseCoopers LLP, London

Syndicate 6130 active underwriter

E Lines

Syndicate independent auditors

PricewaterhouseCoopers LLP, London

Directors' interests

None of the Directors of the Managing Agent have any participation in the Syndicate's premium income capacity.

Disclosure of information to the Auditors

The Directors each confirm that:

- So far as they are aware, there is no relevant audit information of which the Syndicate's Auditors are unaware, and
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Syndicate's Auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the China Reinsurance (Group) Corporation Audit Committee Meeting.

Approved by the Board of Chaucer Syndicates Limited.



R J Callan
Chief Financial Officer
4 March 2020

Statement of Comprehensive Income for the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	(923)	28,437
Outward reinsurance premiums		(772)	(10,221)
Net premiums written		(1,695)	18,216
Change in the provision for unearned premiums			
Gross amount	13	11,240	(9,259)
Reinsurers' share	13	(3,742)	3,002
Net change in provision for unearned premiums		7,498	(6,257)
Earned premiums, net of reinsurance		5,803	11,959
Allocated investment return transferred from the Non-Technical Account		879	505
Total technical income		6,682	12,464
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	13	(1,285)	(4,039)
Reinsurers' share	13	475	1,586
Net claims paid		(810)	(2,453)
Change in the provision for claims			
Gross amount		(460)	(4,769)
Reinsurers' share		214	2,131
Net change in the provision for claims		(246)	(2,638)
Claims incurred, net of reinsurance		(1,056)	(5,091)
Net operating expenses	5	(3,119)	(5,502)
Total technical charges		(4,175)	(10,593)
Balance on the Technical Account – General Business		2,507	1,871
Non-Technical Account			
Other income / (expense)	11	86	(131)
Investment income	9	879	505
Allocated investment return transferred to the Technical Account - General Business		(879)	(505)
Total comprehensive income		2,593	1,740

All the amounts above are in respect of continuing operations.

Statement of Financial Position as at 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Assets			
Reinsurers' share of technical provisions			
Provision for unearned premiums	13	6,888	10,555
Claims outstanding	13	5,989	5,797
		<u>12,877</u>	<u>16,352</u>
Debtors			
Debtors arising out of reinsurance operations		35,958	43,630
Other debtors	12	1,298	640
		<u>37,256</u>	<u>44,270</u>
Prepayments and accrued income			
Deferred acquisition costs	13	4,655	7,043
		<u>4,655</u>	<u>7,043</u>
Total assets		<u>54,788</u>	<u>67,665</u>
Liabilities			
Capital and reserves			
Member's balance		1,173	(14)
Technical provisions			
Provision for unearned premiums	13	18,778	29,735
Claims outstanding	13	13,932	13,572
		<u>32,710</u>	<u>43,307</u>
Creditors			
Creditors arising out of reinsurance operations		20,905	24,372
Total liabilities		<u>54,788</u>	<u>67,665</u>

The annual accounts on pages 8 to 22 were approved by the Board of Chaucer Syndicates Limited on 4 March 2020 and signed on its behalf by:



R J Callan
Chief Financial Officer

Syndicate 6130

**Statement of Changes in Member's Balances for the year ended 31
December 2019**

	2019	2018
	\$'000	\$'000
Balance as at 1 January	(14)	(1,754)
Payments of profit to member's personal reserve funds	(1,406)	-
Total comprehensive income	2,593	1,740
Balance as at 31 December	1,173	(14)

Statement of Cash Flows for the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Total comprehensive income		2,593	1,740
(Decrease) / increase in gross technical provisions		(8,209)	18,684
Decrease / (increase) in reinsurers' share of gross technical provisions		3,475	(5,133)
Decrease / (increase) in debtors		7,672	(30,023)
(Decrease) / increase in creditors		(3,467)	15,237
Investment return	9	(879)	(505)
Net cash generated from operating activities		1,185	-
Cash flows from investing activities			
Investment income received		221	-
Net cash generated from investing activities		221	-
Cash flows from financing activities			
Distribution profit		(1,406)	-
Net cash used in financing activities		(1,406)	-
Cash and cash equivalents at inception		-	-
Cash and cash equivalents at end of year		-	-

The Syndicate operates on a funds withheld basis until a year of account closes. The 2016 year of account has closed with cash flows in the 2019 calendar year. There were no movements in cash in 2018.

Notes to the Accounts for the year ended 31 December 2019

1. Basis of preparation

The Syndicate accounts have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006. The Syndicate accounts have been prepared under regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("IAD"), and reflect the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) as modified by the IAD.

The Syndicate annual accounts have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies is set out below.

Having assessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Whilst the syndicate has been placed into run-off, it will continue in operation for the foreseeable future in accordance with a plan approved by the Directors.

2. Accounting policies

a) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

i) Premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

ii) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the Statement of Financial Position date, calculated based on established earnings patterns or time apportionment as appropriate.

iii) Reinsurance premiums ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

iv) Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the Statement of Financial Position date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the Statement of Financial Position date based on statistical methods. Refer to reserving risk section in Managing Agent's Report for more detail.

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

Notes to the Accounts for the year ended 31 December 2019

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

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

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

v) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

vi) Deferred acquisition costs

Acquisition costs, which comprise commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the Statement of Financial Position date.

b) Net operating expenses

Net operating expenses are recognised on an accruals basis. These comprise the Syndicate's operating expenses such as profit commission, acquisition costs, Managing Agency costs, the costs of membership of Lloyd's and other expenses attributable to the Syndicate's underwriting.

c) Foreign currencies

The functional and presentation currency of the Syndicate is United States Dollars.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of non-monetary assets and liabilities denominated in foreign currencies are recognised in other comprehensive income for those items where the gain is required to be recognised within other comprehensive income, and in the non-technical account where the gain is required to be recognised within profit or loss.

Notes to the Accounts for the year ended 31 December 2019

d) Investment income

Investment income consists solely of interest earned on the funds withheld balance. It is credited to the technical account as all investment assets relate to the technical account.

e) Financial Liabilities

Creditors are financial liabilities and are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost, using the effective interest method.

f) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their member's agent is gross of tax.

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

g) Key judgements and uncertainty

In application of accounting policies described in Note 2, the following judgements, estimates and assumptions that have had the most significant impact on the financial statements are:

- Valuation of insurance contract liabilities.
- Premium recognition.

Notes to the Accounts for the year ended 31 December 2019

3. Segmental analysis

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

	Gross premiums written \$'000	Gross premiums earned \$'000	Gross claims incurred \$'000	Gross operating expenses* \$'000	Reinsurance balance \$'000	Total \$'000	Net technical provisions \$'000
2019							
Reinsurance acceptances							
Energy	912	2,070	(262)	(677)	(551)	580	(2,276)
Property	(60)	790	(253)	(173)	(179)	185	(2,069)
Political Risks & Political Violence	(1,428)	7,595	(1,429)	(2,271)	(3,073)	822	(15,217)
Liability	(9)	6	(1)	-	-	5	(19)
Marine	(1)	(1)	3	(2)	(3)	(3)	-
Aviation	(337)	(143)	197	30	(45)	39	(252)
	(923)	10,317	(1,745)	(3,093)	(3,851)	1,628	(19,833)
2018							
Reinsurance acceptances							
Energy	4,129	2,328	(652)	(913)	(535)	228	(2,959)
Property	2,796	2,775	(4,171)	(737)	658	(1,475)	(3,154)
Political Risks & Political Violence	20,920	12,822	(3,213)	(4,148)	(2,945)	2,516	(20,286)
Liability	15	14	(11)	-	(2)	1	(28)
Marine	(6)	(6)	17	16	(1)	26	(2)
Aviation	583	1,245	(778)	(304)	(94)	69	(526)
	28,437	19,178	(8,808)	(6,085)	(2,919)	1,366	(26,955)

* Gross operating expenses are not the same as net operating expenses shown in the profit and loss account because of commissions in respect of outwards reinsurance received.

All premiums were concluded in the UK.

Commission on direct insurance – gross premiums during 2019 was nil (2018: nil).

The reinsurance balance represents the charge to the technical account from the aggregate of all items relating to outwards reinsurance.

The geographical analysis of gross premiums written by reference to the location of the risk is as follows:

	2019 \$'000	2018 \$'000
Africa	(923)	21,804
Other	-	6,633
Gross premiums written	(923)	28,437

*Other includes risks that are coded as worldwide, which means that there are numerous risk locations or the location can vary (e.g. an aviation risk). However the risk exposure will materially be in Africa.

Notes to the Accounts for the year ended 31 December 2019

4. Movement in prior year's provision for claims outstanding

During 2019 the Syndicate released \$1,737k of technical reserves in respect of prior periods (2018: strengthening of \$229k) arising predominantly from the Property and Marine divisions. These releases were due to favourable claims development on prior year losses during 2019.

5. Net operating expenses

	2019 \$'000	2018 \$'000
Acquisition costs:		
- brokerage and commission	143	7,376
Change in deferred acquisition costs	2,461	(2,137)
Administrative expenses	489	846
Reinsurance commissions and profit participation	26	(583)
	<u>3,119</u>	<u>5,502</u>
Administrative expenses include Member standard personal expenses, Lloyd's subscriptions, New Central Fund contributions and managing agent's fees.	-	526

6. Auditors' remuneration

	2019 \$'000	2018 \$'000
Audit of the syndicate accounts	25	28
Other services pursuant to legislation including audit of regulatory returns	18	21
	<u>43</u>	<u>49</u>

Audit fees were borne by a related party.

7. Staff costs

The Syndicate did not employ any staff in the year. Staff costs in relation to the Syndicate's operations were borne by a related party.

8. Emoluments of the directors of the Managing Agent

The Directors of Chaucer Syndicates Limited received no remuneration in relation to the Syndicate.

9. Investment income

	2019 \$'000	2018 \$'000
Investment income		
Interest received on funds withheld balance	879	505
	<u>879</u>	<u>505</u>

Notes to the Accounts for the year ended 31 December 2019

10. Financial instruments

Risk policies

Market risk

Currency risk

The Syndicate has written a proportion of insurance business in currencies other than US Dollars, which gives rise to exposure to currency risk. The Syndicate mitigates this through a policy of matching assets and liabilities by currency.

Liquidity risk

As the quota share arrangement with Syndicate 1084 operates on a funds withheld basis, there is no day to day exposure to liquidity risk.

The expected payment profile of undiscounted liabilities is as follows:

	2019					Total \$'000
	Maturity band (Years)					
	No stated maturity \$'000	<1 \$'000	1-3 \$'000	3-5 \$'000	>5 \$'000	
Claims outstanding	-	5,241	5,710	2,094	887	13,932
Creditors	20,905	-	-	-	-	20,905
At 31 December 2019	20,905	5,241	5,709	2,094	887	34,837

	2018					Total \$'000
	Maturity band (Years)					
	No stated maturity \$'000	<1 \$'000	1-3 \$'000	3-5 \$'000	>5 \$'000	
Claims outstanding	-	2,933	2,814	308	7,517	13,572
Creditors	24,372	-	-	-	-	24,372
At 31 December 2018	24,372	2,933	2,814	308	7,517	37,944

*The balance under 'No stated maturity' is purely made up of a creditor with the capital member.

Notes to the Accounts for the year ended 31 December 2019

11. Other income / expense

Net foreign exchange gains of \$86k (2018: \$131k loss) are included within other expense in the non- technical account.

12. Other debtors

	2019 \$'000	2018 \$'000
Interest Income receivable	1,298	640
	<u>1,298</u>	<u>640</u>

Notes to the Accounts for the year ended 31 December 2019

13. Technical provisions

	Provision for unearned premiums	Claims outstanding	Deferred acquisition costs	Total
	\$'000	\$'000	\$'000	\$'000
Gross				
At 1 January 2019	29,735	13,572	(7,596)	35,711
Exchange differences	283	(100)	(77)	106
Claims paid in year*	-	(1,285)	-	(1,285)
Movement in provision	(11,240)	1,745	2,671	(6,824)
At 31 December 2019	18,778	13,932	(5,002)	27,708
Reinsurance				
At 1 January 2019	(10,555)	(5,797)	553	(15,799)
Exchange differences	(75)	22	4	(49)
Reinsurance recoveries in the year	-	475	-	475
Movement in provision	3,742	(689)	(210)	2,843
At 31 December 2019	(6,888)	(5,989)	347	(12,530)
Net technical provisions				
At 31 December 2019	11,890	7,943	(4,655)	15,178
At 31 December 2018	19,187	7,775	(7,043)	19,912

* The Syndicate operates on a funds withheld basis. As such all claims paid are settled using the funds held by Syndicate 1084, on Syndicate 6130's behalf.

2019 events

The Syndicate has no exposure to catastrophe events that occurred in 2019.

2018 events

The Syndicate has no exposure to catastrophe events that occurred in 2018.

14. Sensitivity of insurance risk

The following table shows the impact of a 1% variation in the loss ratio on profit or loss and member's balances:

	2019 \$'000	2018 \$'000
Net loss ratio	18%	43%
Adjusted net loss ratio (+1%)	19%	44%
Impact of 1% variation (\$'000)	58	120

Notes to the Accounts for the year ended 31 December 2019

15. Claims development triangles

The development of insurance liabilities provides a measure of the Syndicate's ability to estimate the ultimate value of claims.

Pure underwriting year	2016	2017	2018	Total
	\$'000	\$'000	\$'000	\$'000
<i>Estimate of gross claims incurred</i>				
At end of underwriting year	1,162	4,201	4,941	10,304
One year later	4,955	10,721	6,577	22,253
Two years later	2,327	10,814		13,141
Three years later	2,085			2,085
As at 31 December 2019	2,085	10,814	6,577	19,476
Less gross claims paid	869	4,257	418	5,544
Gross reserves	1,216	6,557	6,159	13,932
<i>Estimate of Net claims incurred</i>				
At end of underwriting year	653	2,357	2,758	5,768
One year later	2,911	6,327	3,748	12,986
Two years later	1,334	6,404		7,738
Three years later	1,201			1,201
As at 31 December 2019	1,201	6,404	3,748	11,353
Less net claims paid	538	2,615	257	3,410
Net reserves	663	3,789	3,491	7,943

*The Syndicate operates on a funds withheld basis. As such all claims paid are settled using the funds held by Syndicate 1084, on Syndicate 6130's behalf.

Notes to the Accounts for the year ended 31 December 2019

16. Related parties

Chaucer Syndicates Limited, a wholly owned subsidiary of China Reinsurance (Group) Corporation, is the Managing agent of the Syndicate. The following table shows the expenses that Chaucer Syndicates Limited has charged the Syndicate during the period and the outstanding balances due from the Syndicate at the year end:

	2019 \$'000	2018 \$'000
Managing agency fees	-	250
Balance due to Chaucer Syndicates Limited at 31 December	(217)	(62)

AXA Global Re has the same ultimate parent as the Corporate member providing capital to the Syndicate. The Syndicate has purchased reinsurance from this company. The following table shows the costs and the outstanding balances due from the Syndicate at the year- end:

	2019 \$'000	2018 \$'000
Reinsurance	297	8,638
Balance due to AXA Global Re at 31 December	(4,798)	(11,179)

Syndicates 1084 and 6130, both managed by Chaucer Syndicates Limited, have entered into a reinsurance contract with one another. These transactions are subject to Chaucer's internal controls which ensure that all are compliant with Lloyd's Related Party Bylaw provisions.

17. Funds at Lloyd's

Every member is required to hold capital at Lloyd's, which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet a participating member underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's, based on Prudential Regulatory Authority requirements and resource criteria. FAL has regard to a number of factors, including the nature and amount of risk to be underwritten by the member and an assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these accounts by way of such capital resources. However, the Managing Agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

18. Capital

Capital framework at Lloyd's

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

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.

Notes to the Accounts for the year ended 31 December 2019

Capital framework at Lloyd's (continued)

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 only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 6130 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other member's 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 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) or as the member's share of the member's balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the syndicate, as represented in the member's balance reported on the Statement of Financial Position on page 9, represent resources available to meet the member's and Lloyd's capital requirements.

19. Ultimate parent company

The Managing Agent considers China Reinsurance (Group) Corporation to be its ultimate parent company. A copy of the most recent consolidated financial statements is available from the website of China Reinsurance (Group) Corporation (www.chinare.com/cn).

Statement of Managing Agent's Responsibilities

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

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

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

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
4. prepare the accounts on the basis that the Syndicate will continue to write future business unless the Syndicate is unable to continue to realise its assets and discharge its liabilities in the ordinary course of business.

The Managing Agent is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 6130

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 6130's syndicate annual accounts (the "syndicate annual accounts"):

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

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

Basis for opinion

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

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

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

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

Managing Agent's Report

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

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 23, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

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

Use of this report

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

whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

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

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

Managing Agent's Report

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

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 24, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

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

Use of this report

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

Other required reporting

Other matters on which we are required to report by exception

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

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

We have no exceptions to report arising from this responsibility.



Andrew Hill (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2020