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Barbican Syndicate 6132

31 December 2019

Annual Report and Financial Statements

Barbican Syndicate 6132

31 December 2019

# Barbican Syndicate 6132

31 December 2019

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# Barbican Syndicate 6132

31 December 2019

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## **DIRECTORS AND ADMINISTRATION**

### **Managing Agent**

Barbican Managing Agency Limited

### **Directors**

D M Booth

I J Bremner (Resigned 2 December 2019)

H N A Colthurst

A D Elliott

M J Harrington (Resigned 29 November 2019)

J W Heap

R H Johnson

R A Keers

L G D N Tucker

J A Kittinger (Appointed 3 December 2019)

H R Sturgess (Appointed 3 December 2019)

### **Managing Agent's Registered Office**

33 Gracechurch Street

London

EC3V 0BT

### **Managing Agent's Registered Number**

06948515

### **Company Secretary**

S J Britt (Resigned 29 November 2019)

Z L Natress (Appointed 18 December 2019)

### **Syndicate Active Underwriter**

A Caldwell (Resigned 29 November 2019)

S Williams (Appointed 3 December 2019)

### **Auditor**

Ernst & Young LLP

25 Churchill Place

Canary Wharf

London E14 5EY

# Barbican Syndicate 6132

31 December 2019

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## REPORT OF THE DIRECTORS OF THE MANAGING AGENCY

The Directors of the Managing Agent ("the Agency") present their Annual Report and Financial Statements for the year ended 31 December 2019 for Syndicate 6132 ("the Syndicate").

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

On 29 November 2019, the entire issued and to be issued share capital of Barbican Group Holdings Limited, the then ultimate parent and controlling party of the Agency, was acquired by Arch Reinsurance Limited.

### Managing Agent

The Managing Agent of the Syndicate since its inception on 1 January 2018 is Barbican Managing Agency Limited, whose registered office is situated at 33 Gracechurch Street, London, EC3V 0BT and whose registered number is 06948515.

### Principal Activity

The principal activity of the Syndicate is the transaction of general insurance and reinsurance business in the Marine, Property, Financial Lines and Accident & Health and Casualty classes. The result for calendar year 2019 is a loss of £(0.2m) (2018: loss of £(3.0m)). This is analysed further below.

### Key Performance Indicators

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

	2019	2018
	£000	£000
Gross premiums written	51,388	39,761
Gross premiums earned	47,170	23,227
Net premiums earned	31,534	14,583
Net claims incurred	(20,866)	(10,477)
Investment return	481	78
Operating expenses	(11,447)	(7,146)
Realised and unrealised movements on foreign exchange	49	7
Loss for the year	<u>(249)</u>	<u>(2,955)</u>
Net Claims ratio	66.2%	71.8%
Net Expense ratio	36.3%	49.0%
Net Combined ratio	102.5%	120.8%

# Barbican Syndicate 6132

31 December 2019

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## REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

### Review of the Business

The Syndicate was established to provide a dedicated vehicle for external investors to participate on Barbican Syndicate 1955 via quota share reinsurance.

For the 2019 Year of Account, the Syndicate took a 15.2% (2018 Year of Account: 10.9%) whole account quota share reinsurance of Barbican Syndicate 1955, with an additional 5% share taken on Financial Institutions and Cyber Classes. Total planned premium income capacity was £41.5m.

The Syndicate wrote £51.4m of gross premium during 2019 (2018: £39.8m).

An analysis of the Syndicate's performance in 2019 is provided below.

#### *Marine, Aviation and Transport (MAT)*

The MAT division of Barbican Syndicate 1955 encompasses both the Marine Reinsurance and Marine Insurance lines of business. It also includes General Aviation and Aerospace, Terrorism and Political Risk business. In 2019, this division generated Gross written premium of £16.7m (2018: £11.6m) for the Syndicate.

#### *Energy*

In 2019, the Energy division of Barbican Syndicate 1955 generated Gross written premium of £5.6m (2018: £4.3m) for the Syndicate.

#### *Property*

The Property division of Barbican Syndicate 1955 operates in three lines of business: Property Insurance (including Open Market and Binding Authorities), Property Reinsurance and UK Property & Casualty Insurance. This division also includes Nuclear Insurance. In 2019, this division generated Gross written premium of £6.6m (2018: £7.3m) for the Syndicate.

#### *Financial Lines*

The Financial lines division of Barbican Syndicate 1955 includes three lines of business: Cyber Liability, UK SME Professional Indemnity and Financial & Professional Lines. In 2019, this division generated Gross written premium of £10.3m (2018: £7.0m) for the Syndicate.

#### *A&H and Casualty*

The A&H and Casualty division of Barbican Syndicate 1955 includes three lines of business: Healthcare Liability, International Casualty Reinsurance and North American Casualty Reinsurance. In 2019, this division generated Gross written premium of £12.0m (2018: £6.9m) for the Syndicate.

#### *Facilities*

In 2019, the Facilities division of Barbican Syndicate 1955 generated Gross written premium of £0.2m (2018: £2.7m) for the Syndicate.

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### REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

#### **Business Environment**

Challenging trading conditions characterised much of 2019. The year began with the continuation of existing difficult soft market trading conditions. As the year progressed, positive rate change began to be achieved, with some insurance classes (such as Commercial D&O, Financial Lines and Downstream Energy) reacting more markedly to adverse market results, driven by both large and attritional losses. Market improvements were generally greater in the Insurance classes, but this pattern is expected to flow through into the Reinsurance classes throughout 2020.

#### **Investment Returns**

The Syndicate is cashless and does not hold any investments. However, it takes a share of Barbican Syndicate 1955's investment income. Investment yields were up overall in 2019 to 1.6% (2018: 1.2%). The 2019 investment return of £0.5m is above prior year (2018: £0.1m) due to higher unrealised gains.

#### **Principal Risks and Uncertainties**

The Board of the Agency ("Agency Board") sets risk appetite annually as part of the Syndicate's business planning and individual capital assessment process. The Agency has developed a risk and control framework which is built on an Enterprise Risk Management Model that aims to integrate existing risk programmes into a more holistic, embedded risk and capital management framework. This is reviewed annually as part of the Syndicate Business Forecast ("SBF") and Solvency Capital Requirement ("SCR") process.

The future prospects of the UK economy are uncertain as a result of the UK's decision to leave the European Union. Anticipated legal and operational changes emanating from that decision have generated an elevated level of risk for Lloyd's and the London Market. The Syndicate will utilise Lloyd's Brussels as appropriate.

The principal risks and uncertainties faced by the Syndicate and Agency were as follows:

##### *Insurance Risk*

Insurance risk includes the risks that a policy will be written for inadequate premium, provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), and that estimates of claims subsequently prove to be insufficient (reserving risk). The Agency Board manages insurance risk by agreeing its appetite for these risks annually and managing this primarily through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Agency Board then monitors performance against the business plan regularly throughout the year. Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business. Reserve adequacy is monitored through quarterly review by both Barbican Syndicate 1955's actuary and the Agency Board and annually by an independent firm of actuaries.

##### *Credit Risk*

The key aspects of credit risk are the risk of default by one or more of the Syndicate's reinsurers and by Barbican Syndicate 1955 in respect of the reinsurance it cedes to the Syndicate on a funds withheld basis. The Agency Board's policy is that Syndicate 1955 generally reinsures with businesses rated A- or higher by one or more rating agencies. Syndicate 1955 only uses reinsurers with lower ratings or that are completely unrated where collateral or a claims paying guarantee from a parent undertaking is provided. Furthermore, the cash flows from Barbican Syndicate 1955 are expected to occur following the closure of the Years of Account at 36 months.

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### REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

#### Principal Risks and Uncertainties (continued)

##### *Currency Risk*

The key aspect of currency risk is the risk of losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Agency Board, which may instruct surplus currencies to be sold to reduce any deficit on other currencies.

##### *Liquidity Risk*

This is the risk that the Syndicate will not be able to meet liabilities as they fall due, owing to a shortfall in cash in Barbican Syndicate 1955, which cedes a proportion of its insurance liabilities to the Syndicate. To mitigate this risk, the Agency Board reviews Barbican Syndicate 1955's cash flow projections regularly and ensures it holds liquid investments in its portfolios.

##### *Group Risk*

Group risk is the possibility that the operation of one part of the Arch Group adversely affects another. The Group is defined as Arch Capital Group Limited and all owned subsidiaries.

Group risk includes: negative publicity; inadequate communication within the organisation; undue influence from fellow subsidiaries, holding companies or stakeholders; financial pressures to make funds available to the Group; and financial restraint leading to shortcomings in core activities such as reinsurance purchasing.

The Agency's strategy is to minimise any Group risk by ensuring that there are clear lines of authority and communication between related parties, that intra-Group reinsurance is placed on arm's length terms and that any intra-Group agreements are formed objectively and clearly understood and observed by all parties.

##### *Operational Risk*

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Agency Board seeks to manage this risk through the use of policies, procedures, management controls, risk-based compliance monitoring, and a structured programme of testing processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated.

##### *Regulatory Risk*

The Agency is required to comply, inter alia, with the requirements of the Financial Conduct Authority ("FCA"), Prudential Regulation Authority ("PRA"), the Society of Lloyd's (Lloyd's) and certain EU regulations. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. Regulatory risk is the risk of regulatory intervention owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency Board has appointed the Agency Compliance Officer, who monitors regulatory developments, assesses the impact on the Agency's policies and processes and reports to the Agency Board.

##### *Market Risk*

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the Syndicate.

The strategy of the Agency is to invest surplus funds in low risk securities in line with the agreed investment guidelines. These are conservative and reflect the Agency's position that investment management is not a core activity. The investment strategy is such that the underlying portfolio of assets is spread across a number of government and corporate bonds with fixed and variable rates of interest.

For further information on the principal risks and uncertainties, see Note 11 in the Notes to the Financial Statements.



**REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)**

**Future Developments**

The Syndicate continues to participate via a quota share reinsurance of Barbican Syndicate 1955 for the 2020 Year of Account. The Syndicate's Lloyd's stamp capacity for the 2020 Year of Account is £41.7m (2019: £41.5m) which consists of a cession of 15.5% (2019: 15.2%) on the total 2020 Whole Account result of Syndicate 1955 and an additional cession of 5% on Financial Institutions and Cyber classes (2019: 5% additional cession on Financial Institutions and Cyber classes).

**Disclosure of Information to the Auditor**

So far as each person who was a Director of the Agency at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow Directors of the Agency and the Syndicate's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

**Reappointment of Auditor**

Ernst & Young LLP are deemed reappointed as auditor of the Syndicate.

By order of the Agency Board

R A Keers  
Finance Director  
5 March 2020

### **MANAGING AGENT'S RESPONSIBILITIES STATEMENT**

The Agency is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Agency to prepare Syndicate Annual Accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate Annual Accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year. In preparing the Syndicate Annual Accounts, the Agency is 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 notes to the Syndicate Annual Accounts; and
- prepare the Syndicate Annual Accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Agency 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 Annual Accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARBICAN SYNDICATE 6132**

#### **Opinion**

We have audited the Syndicate annual accounts of Syndicate 6132 ('the Syndicate') for the year ended 31 December 2019 which comprise the Income Statement, the Statement of changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 16, 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 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARBICAN SYNDICATE 6132**

**(CONTINUED)**

**Other Information**

The other information comprises the information included in the annual report, 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.

**Opinion 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARBICAN SYNDICATE 6132  
(CONTINUED)**

**Responsibilities of the directors of the managing agent**

As explained more fully in the Statement of the Managing Agent's Responsibilities (set out on page 8), 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 it 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 financial statements is located on the Financial Reporting Council's website at <https://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.

Robert Bruce (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
5 March 2020

# Barbican Syndicate 6132

31 December 2019

## INCOME STATEMENT

### Technical Account - General Business

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Gross premiums written	2	51,388	39,761
Outward reinsurance premiums		<u>(16,103)</u>	<u>(14,395)</u>
Net premiums written		<u>35,285</u>	<u>25,365</u>
Change in the provision for unearned premiums:			
- Gross amount		(4,218)	(16,534)
- Reinsurers' share		<u>467</u>	<u>5,751</u>
Change in the net provision for unearned premiums	7	<u>(3,751)</u>	<u>(10,783)</u>
<b>Earned premiums, net of reinsurance</b>		31,534	14,583
Allocated investment return transferred from non-technical account	3	481	78
Claims paid			
- Gross amount		(12,326)	(1,738)
- Reinsurers' share		<u>3,912</u>	<u>159</u>
Net claims paid		<u>(8,414)</u>	<u>(1,579)</u>
Change in the claims outstanding			
- Gross amount		(25,082)	(15,376)
- Reinsurers' share		<u>12,630</u>	<u>6,478</u>
Change in the net claims outstanding	8	<u>(12,452)</u>	<u>(8,898)</u>
<b>Claims incurred, net of reinsurance</b>		<u>(20,866)</u>	<u>(10,477)</u>
<b>Net operating expenses</b>	4	<u>(11,447)</u>	<u>(7,146)</u>
<b>Balance on the technical account for general business</b>		<u>(298)</u>	<u>(2,962)</u>

# Barbican Syndicate 6132

31 December 2019

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## INCOME STATEMENT (CONTINUED)

### Non-Technical Account - General Business

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
<b>Balance on the general business technical account</b>		(298)	(2,962)
Investment income	3	304	127
Unrealised gains/(losses) on investments	3	126	(29)
Realised gains/(losses) on investments	3	61	(14)
Investment expenses and charges	3	(10)	(6)
Allocated investment return transferred to general business technical account		<u>(481)</u>	<u>(78)</u>
Foreign exchange gains		<u>49</u>	<u>7</u>
<b>Loss for the year</b>		<u><u>(249)</u></u>	<u><u>(2,955)</u></u>

There are no other comprehensive income or expense other than those reported in the Income Statement, thus no Statement of Comprehensive Income has been prepared.

# Barbican Syndicate 6132

31 December 2019

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## STATEMENT OF CHANGES IN MEMBERS' BALANCES

For the year ended 31 December 2019

	Note	2019 £000	2018 £000
At 1 January		(2,955)	-
Loss for the year		(249)	(2,955)
At 31 December		<u>(3,204)</u>	<u>(2,955)</u>



# Barbican Syndicate 6132

31 December 2019

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## STATEMENT OF FINANCIAL POSITION

### Assets

As at 31 December 2019

	Notes	2019 £000	2018 £000
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	7	6,233	6,009
Claims outstanding	8	<u>18,794</u>	<u>6,791</u>
		25,027	12,800
<b>Debtors</b>			
Debtors arising out of reinsurance operations	9	27,783	14,070
Deferred acquisition costs	10	4,461	3,368
<b>Total assets</b>		<u><u>57,271</u></u>	<u><u>30,238</u></u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Member's balances		(3,204)	(2,955)
<b>Technical provisions</b>			
Provision for unearned premiums	7	20,654	17,201
Claims outstanding	8	<u>39,821</u>	<u>15,992</u>
		60,475	33,193
<b>Total liabilities</b>		<u><u>57,271</u></u>	<u><u>30,238</u></u>

The Annual Accounts on pages 12 to 46 were approved by the Board of Barbican Managing Agency Limited on 3 March 2020 and were signed on its behalf by

RA Keers  
Finance Director  
5 March 2020

# Barbican Syndicate 6132

31 December 2019

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## STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
<b>Cash flows from operating activities</b>			
Loss for the year		(249)	(2,955)
Adjustments for			
Movement in general insurance unearned premiums and outstanding claims	7, 8	27,282	33,193
Movement in reinsurers' share of unearned premiums and outstanding claims	7, 8	(12,227)	(12,800)
Movements in other assets/liabilities		(14,325)	(17,360)
Investment return	3	(481)	(78)
<b>Net cash from operating activities</b>		<u>-</u>	<u>-</u>
<b>Cash flows from financing activities</b>			
Profit distribution		-	-
<b>Net cash (used in) financing activities</b>		<u>-</u>	<u>-</u>
<b>Net change in cash and cash equivalents</b>		<u>-</u>	<u>-</u>
Cash and cash equivalents at the beginning of the year		-	-
<b>Cash and cash equivalents at the end of the year</b>		<u><u>-</u></u>	<u><u>-</u></u>

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### NOTES TO THE FINANCIAL STATEMENTS

#### 1 Significant Accounting Policies

##### a. Statement of Compliance

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards and the “Insurance Accounts Directive” (Lloyd’s Syndicate Accounts) Regulations 2008.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

##### b. Basis of Preparation

The financial statements for the year ended 31 December 2019 were approved for issue by the Agency Board on 3 March 2020.

The financial statements are prepared in Sterling which is the presentation and functional currency of the Syndicate and rounded to the nearest £000.

Amounts ceded from Barbican Syndicate 1955 to the Syndicate are taken gross of external reinsurance, and are recognised as reinsurance balances in Barbican Syndicate 1955, then are in turn recognised as gross balances in the Syndicate. The Syndicate’s share of the Barbican Syndicate 1955’s external outward reinsurance is recognised as reinsurance balances in the Syndicate. The Syndicate also takes a share of investment income and expenses, which are ceded out of Barbican Syndicate 1955 and recognised in the equivalent accounts in the Syndicate. Syndicate 6132 is a quota share reinsurer of Barbican Syndicate 1955. Barbican Syndicate 1955 purchases whole account reinsurance to cover both Barbican Syndicate 1955 and associated special purpose arrangements (SPA’s) as the underlying business follows. As the Syndicate is an SPA, it does not hold monetary assets on its statement of financial position. In effect it is a cashless syndicate. All funds are maintained in a withheld account and will be distributed once the Year of Account closes.

##### c. Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the key sources of estimation uncertainty:

###### *Insurance Contract Technical Provisions*

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**c. Judgements and Key Sources of Estimation Uncertainty (continued)**

*Insurance Contract Technical Provisions (continued)*

It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the Statement of Financial Position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by underwriting years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the most likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

A number of judgements and assumptions are used in assessing salvage and subrogation recoveries.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the earnings methodology on an insurance contract requires amortisation of unearned premium on a basis other than time apportionment. Further details are given in note 11.

*Estimates of Future Premiums*

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgmental and could result in misstatements of revenue being receivable in the Financial Statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**d. Financial Instruments**

The Syndicate's financial instruments are initially recorded at cost and are carried at each reporting date at amortised cost.

*De-recognition of Financial Assets*

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- The Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the Syndicate's continuing involvement in the asset. This applies to the funds withheld in respect of the cession from Barbican Syndicate 1955 to the Syndicate. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Syndicate could be required to repay. In that case, the Syndicate also recognises an associated liability.

**e. Investment Return**

Barbican Syndicate 1955's investments are recognised at fair value through the profit and loss. Although the Syndicate does not itself hold any investments, it takes a share of Barbican Syndicate 1955's investment income.

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Interest income is recognised on an accruals basis based on the effective interest rate.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the Statement of Financial Position date and their valuation at the previous Statement of Financial Position date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

An allocation of actual investment return supporting the general insurance technical provisions is made from the non-technical account to the technical account. Investment return related to non-insurance business is attributed to the non-technical account.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**f. Insurance Contracts**

*Product Classification*

Insurance contracts are those contracts when the Syndicate (the insurer) has accepted significant insurance risk from another party (the insured) by agreeing to compensate the insured if a specified uncertain future event (the insured event) adversely affects the insured. As a general guideline, the Agency determines whether the Syndicate has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

*Gross Premiums*

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments to such premiums receivable arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a re-measurement of the initial premium. Gross written premiums are stated gross of commission.

Gross written premiums include an estimate for pipeline premiums (i.e. premiums due but not yet received or notified to the Syndicate by intermediaries) relating only to those underlying contracts of insurance where the period of cover has commenced prior to the reporting date. The most significant assumption in this estimate is that current year experience will be consistent with prior year experience.

Under some policies, Gross written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a re-measurement taking account of such a reduction is made as soon as there is an obligation to the insured.

Gross written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk.

The Syndicate has written a quota share contract with Barbican Syndicate 1955. The contract operates on a “funds withheld basis” whereby the proportion of the ceded premiums are considered as combined funds from which loss recoveries will be drawn. The associated cash flows are expected to occur following the closure of the Years of Account at 36 months. As such, the balance of amounts ceded by Barbican Syndicate 1955 to the Syndicate is recognised as an asset on the Statement of Financial Position.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**f. Insurance Contracts (continued)**

*Reinsurance Premiums*

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period, including portfolio premiums payable, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation to the insured.

Reinsurance premiums under a Risks Attaching During (“RAD”) contract are earned typically over two years based on inception and expiry dates. Year of Account allocation is based on the inception and expiry dates that the contract relates to. This results in a triangular earnings pattern, where earnings increase towards the middle of the policy period then decrease until the policy expires.

Reinsurance premiums under a Losses Occurring During (“LOD”) contract are earned on a straight line basis over the period of the reinsurance contract based on inception and expiry dates. Losses that occur during the length of the contract could relate to the current, prior or following Year of Account, therefore an allocation to Year of Account is applied to this type of policy. The allocation is based on historical class level monthly earnings for the underlying gross policies.

*Fees and Commission Income*

Insureds are charged for policy administration services, investment management services, policy surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services to be provided in future periods, then they are deferred and recognised over those future periods.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**f. Insurance Contracts (continued)**

*Claims*

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

*Technical Provisions*

Technical provisions comprise claims outstanding, provisions for unearned premiums, provisions for unexpired risks and deferred acquisition costs.

*Claims Outstanding*

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims and therefore, the ultimate cost of these claims cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

These methods generally involve projecting from past claims development experience 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.

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 reinsurers 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 that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**f. Insurance Contracts (continued)**

*Technical Provisions (continued)*

*Claims Outstanding (continued)*

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 Annual Accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Provisions for Unearned Premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The provision for unearned premiums is calculated on a monthly pro rata basis with. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of reinsurance premiums in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Unexpired Risks

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable.

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together.

At 31 December 2019 and 31 December 2018 the Syndicate did not have an unexpired risks provision.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**f. Insurance Contracts (continued)**

*Technical Provisions (continued)*

**Deferred Acquisition Costs**

The Syndicate is an SPA and therefore has no cash, and no brokerage changes hands under the quota share contract. Acquisition costs and deferred acquisition costs are ceded from Barbican Syndicate 1955 as per the contract.

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods. Deferred acquisition costs are amortised over the period in which the related premiums are earned.

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement.

Commissions receivable on outwards reinsurance contracts are deferred and amortised on the same basis as the related reinsurance premium is earned.

*Reinsurance Assets*

The Syndicate cedes insurance risk in the normal course of business for all of its lines of business. Reinsurance assets represent balances due from reinsurance companies and other Lloyd's Syndicates. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, should an indication of impairment arise during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the Income Statement.

Ceded reinsurance arrangements do not relieve the Syndicate from its insurance obligations to its insureds.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**f. Insurance Contracts (continued)**

*Insurance Receivables*

Insurance receivables relate to the cession from Barbican Syndicate 1955 on a funds withheld basis and are recognised when due and are measured at amortised cost. The carrying value of insurance receivables is reviewed for impairment should events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Income Statement.

Insurance receivables are derecognised when the de-recognition criteria for financial assets have been met.

**g. Provisions**

Provisions are recognised when the Syndicate has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**h. Foreign Currencies**

The Syndicate's functional currency and presentational currency is Sterling.

Transactions in US dollars, Canadian dollars, Euros, Australian dollars and Japanese Yen are initially recorded in the functional currency at the average rates of exchange for the period where for practical purposes it is not possible to use the actual rate at the date of transaction. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities (which include unearned premiums and deferred acquisition costs) denominated in foreign currencies are translated at the rate of exchange at the Statement of Financial Position date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences arising on the retranslation of opening Statement of Financial Position items at the closing Statement of Financial Position rate and the retranslation of the Income Statement for the year from the average rate to the closing Statement of Financial Position rate are recorded in the non-technical account.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**i. Taxation**

Under Schedule 19 of the Finance Act 1993 managing agents at Lloyd's 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 the Agency and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

**j. Profit Commission**

Profit commission is payable to the Agency at a rate of 17.5% on the 2019 Year of Account on the cumulative profit (2018 Year of Account: 17.5%). 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. In the event that a Year of Account is loss making, a deficit clause permits losses to be carried forward against future Year of Account profits (up to two years) in order to reduce future Year of Account profit commission payments.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 Segmental Analysis**

a. Analysis by Class of Business

An analysis of the underwriting result 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	51,388	47,170	(37,408)	(11,447)	906	(779)	35,448
2018							
Reinsurance	39,761	23,227	(17,114)	(7,146)	(2,007)	(3,040)	20,393

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participations receivable.

All premiums were concluded in the UK.

b. Analysis by Geographical Location

Geographical analysis of gross premiums written is based on the location of underlying policyholders, which is not materially different from revenue by source. The geographical analysis of premiums by destination (or location of risk) is as follows:

	2019 £000	2018 £000
UK	17,616	15,092
EU member states	4,681	3,501
USA	17,095	13,073
Rest of the World	11,996	8,095
Gross premiums written	51,388	39,761

# Barbican Syndicate 6132

31 December 2019

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3 Investment return

Barbican Syndicate 6132's investments are recognised at fair value through the profit and loss. Although the Syndicate holds no cash or investments, it takes a share of Barbican Syndicate 1955's investment income.

	2019	2018
	£000	£000
Investment income		
Income from investments, cash and other deposits	304	127
Gains/(losses) on realisation of investments	61	(14)
Total investment income	<u>365</u>	<u>113</u>
Unrealised gains/(losses) in investments at fair value through profit or loss	126	(29)
Investment management charges		
Investment management expenses, including interest	(10)	(6)
Net investment return	<u>481</u>	<u>78</u>

### 4 Net Operating Expenses

	2019	2018
	£000	£000
Acquisition costs	9,510	8,556
Standard personal expenses	822	687
Change in deferred acquisition costs (note 10)	(571)	(3,907)
Administrative expenses	<u>1,686</u>	<u>1,810</u>
Net operating expenses	<u>11,447</u>	<u>7,146</u>

Profit commission and the managing agency fee is included within standard personal expenses.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5 Auditor's Remuneration**

The auditor's remuneration excluding fees incurred as part of the whole account quota share arrangement with Syndicate 1955 were as follows:

	2019	2018
	£000	£000
Audit of the Syndicate Annual Accounts	20	19
Audit related services	22	21
	<u>42</u>	<u>40</u>

Auditors' remuneration is included as part of the administrative expenses in Note 4 to the Financial Statements.

**6 Staff Costs and Directors' Remuneration**

a. Staff Costs

All staff in Barbican Managing Agency Limited are employed by Barbican Holdings (UK) Limited ("BHUK"), the immediate parent company of the Agency.

The cost of these staff is mainly borne by Barbican Syndicate 1955 and a portion of the cost is ceded to the Syndicate as per the quota share contract with Barbican Syndicate 1955, per note 1.

b. Directors' Remuneration

The Syndicate was not recharged any expenses relating to the remuneration of the Directors of the Agency.

**7 Provisions for Unearned Premiums**

2019	Gross £000	Reinsurer's	
		share £000	Net £000
At 1 January 2019	17,201	(6,009)	11,192
Premiums written in the year	51,388	(16,103)	35,285
Premiums earned in the year	(47,170)	15,636	(31,534)
Foreign exchange	(765)	243	(522)
At 31 December 2019	<u>20,654</u>	<u>(6,233)</u>	<u>14,421</u>

2018	Gross £000	Reinsurer's	
		share £000	Net £000
At 1 January 2018	-	-	-
Premiums written in the year	39,761	(14,395)	25,366
Premiums earned in the year	(23,227)	8,644	(14,583)
Foreign exchange	667	(258)	409
At 31 December 2018	<u>17,201</u>	<u>(6,009)</u>	<u>11,192</u>

# Barbican Syndicate 6132

31 December 2019

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8 Claims outstanding

2019	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2019	15,992	(6,791)	9,201
Claims incurred in the current accident year	31,880	(15,526)	16,354
Claims incurred in the prior accident years	5,528	(1,016)	4,512
Claims paid during the year	(12,326)	3,912	(8,414)
Foreign exchange	(1,253)	627	(626)
At 31 December 2019	<u>39,821</u>	<u>(18,794)</u>	<u>21,027</u>

2018	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2018	-	-	-
Claims incurred in the current accident year	17,114	(6,637)	10,477
Claims paid during the year	(1,738)	159	(1,579)
Foreign exchange	616	(313)	303
At 31 December 2018	<u>15,992</u>	<u>(6,791)</u>	<u>9,201</u>

### 9 Debtors

The Syndicate's debtors arising out of reinsurance operations and other debtors are initially recorded at cost and are carried at each reporting date at amortised cost.

	2019 £000	2018 £000
Debtors arising out of reinsurance operations – due after one year	<u>27,783</u>	<u>14,070</u>

### 10 Deferred Acquisition Costs

	2019 £000	2018 £000
At 1 January	3,368	-
Change in deferred acquisition costs (note 4)	571	3,907
Foreign exchange	522	(539)
At 31 December	<u>4,461</u>	<u>3,368</u>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management**

a. Governance Framework

The primary objective of the Agency's risk and financial management framework is to protect the members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognises the critical importance of having efficient and effective risk management systems in place.

The Agency has established a risk management function with clear terms of reference from the Agency Board, its committees and the associated executive management committee. The Agency has adopted the terms of reference of the Group's Risk Management function and approves the annual plans of that function to support its risk management framework. The risk management framework is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Agency Board to the Managing Director and executive management committees. Lastly, a policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for Syndicate's operations has been put in place.

The Agency Board approves risk management policies relevant to the Syndicate and meets regularly to approve any commercial, regulatory and organisational requirements of such policies and their implementation. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. Significant emphasis is placed on the assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

b. Capital Management Objectives, Policies and Approach

In line with the Lloyd's capital framework, Lloyd's capital setting process and provision of capital by members, the Agency has established the following capital management objectives, policies and approach to managing the risks that affect the Syndicate's capital position:

- To maintain the required level of stability of the Syndicate thereby providing a degree of security to insureds,
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its members,
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets,
- To align the profile of assets and liabilities taking account of risks inherent in the business, and
- To maintain financial strength to support new business growth and to satisfy the requirements of the insureds, regulators and stakeholders.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

b. Capital Management Objectives, Policies and Approach (continued)

The operations of the Agency, which manages the underwriting of the Syndicate, are subject to regulatory requirements within the jurisdictions in which it operates, in particular compliance with Financial Conduct Authority (“FCA”) rules, Prudential Regulation Authority (“PRA”) rules, Lloyd’s standards and byelaws and relevant EU regulations and European Insurance and Occupational Pensions Authority (“EIOPA”) guidelines. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of insurers to meet unforeseen liabilities as they arise.

The Syndicate has met all of these requirements throughout the financial year.

In reporting financial strength, capital and solvency are principally measured using the rules prescribed by the PRA as applicable to the Society of Lloyd’s and Lloyd’s managing agents. These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.

The Agency’s capital management policy is to hold sufficient capital to cover the statutory requirements based on the requirements of the PRA and Lloyd’s, including any additional amounts required by the regulators.

c. Approach to Capital Management

The Agency seeks to optimise the structure and sources of capital to ensure that it consistently maximises capital resources.

The Agency’s approach to managing Syndicate capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to manage the capital position of the Syndicate in the light of changes in economic conditions and risk characteristics. An important aspect of the Syndicate’s overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Syndicate is focused on the creation of value for members.

The primary sources of capital used by the Syndicate are members’ balances and bank letters of credit.

The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Agency Board.

The Agency has developed a Lloyd’s Internal Model (“LIM”) framework on behalf of the Syndicate to identify risks and quantify their impact on economic capital. The LIM estimates how much capital is required to reduce the risk of insolvency to a remote degree of probability under Solvency II requirements. The LIM has also been considered in assessing the capital requirement.

The Syndicate has had no significant changes in its policies and processes to its capital structure during the past year.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

d. Capital Resources Requirement

The Syndicate is subject to capital requirements imposed by Lloyd's. Throughout the year the Syndicate has complied with the Lloyd's risk based LIM methodology under Solvency II, which is used to calculate the Syndicate's capital requirement. Lloyd's capital setting uses a capital requirement set at Syndicate level as a starting point, but the requirement to meet Solvency II & Lloyd's capital requirements applies at member level only. Accordingly, the capital requirement of the Syndicate is not disclosed in these Financial Statements.

e. Solvency II Capital Requirements

Under the Solvency II regime, there are two prescribed methods for assessing an insurer's regulatory capital requirements – using either a standard formula set by the regulator or an Internal Model specific to that insurer which is subject to regulatory approval.

The Syndicate operates within the Lloyd's market. The PRA has determined that the Society of Lloyd's is the relevant insurer for the Lloyd's market. The Society of Lloyd's has chosen to operate an Internal Model and this was approved by the PRA in December 2015. In consequence, all Lloyd's managing agents are required to operate an internal model for each managed Syndicate that is structured on Solvency II lines and which (when aggregated) ensures the integrity and effectiveness of the Society of Lloyd's Internal Model.

The Society of Lloyd's not only oversees the approval and monitoring of each Syndicate's internal model, but also imposes certain restrictive provisions to minimise the risk of non-compliance with regulatory capital requirements.

The effective management of risk and capital is a key strategic priority. The Agency's risk management framework enhances the definition of the risk standards and risk tolerances which guide the day-to-day business decision making and processes and aim to ensure that risk appetite is not exceeded.

Economic capital is calculated for the Syndicate considering the complete spectrum of risks identified by the risk framework, ensuring that the capital requirement reflects the risk profile and enabling capital to be allocated and returns measured on a risk adjusted basis.

The Syndicate submitted its Quarterly Solvency Return (QSR) for 31 December 2019 to Lloyd's on 21 January 2020. The Annual Solvency Return (ASR) for 31 December 2019 is due to Lloyd's on 10 March 2020.

f. Insurance Risk

Insurance risk refers to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Syndicate at the time of underwriting.

Some specific examples of insurance risk include variations in the severity or frequency of claims or the unexpected occurrence of multiple claims arising from a single cause. More generally, insurance risk includes the potential for claims overruns relative to pricing or reserving assumptions.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

f. Insurance Risk (continued)

Insurance risk is a concern in a prudential context because inadequate systems and controls can create a threat to the Prudential Regulation Authority objectives of maintaining market confidence and consumer protection. Inadequately managed insurance risk may result in:

- The inability of the Syndicate to meet its contractual insurance liabilities as they fall due; and
- The inability of the Syndicate to treat its insureds consistently with the Syndicate's obligations.

The Syndicate's underwriting strategy is to write a diverse book of business with a focus on building a composite portfolio with a high level of diversification, thus creating a business with low volatility and a good opportunity for consistent profit across the underwriting cycle. The Syndicate's appetite is governed by market conditions and management undertakes a continuous assessment of its portfolio against this background.

The Syndicate's tolerance by class of business is covered within the business plan. The Syndicate operated within defined exception criteria as follows:

- Stamp capacity was £41.5m for the 2019 Year of Account (2018: £35.0m);
- Maximum realistic disaster scenario net exposure for the 2019 Year of Account of 16.6% of stamp capacity (2018 Year of Account: 9.7%); and
- Usual maximum gross line size for 2019 of £3.8m (2018: £3.4m).

Claims

Open market claims are settled by the claims management team. The claims department has produced claims handling guidelines which incorporate Lloyd's minimum standards.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

f. Insurance Risk (continued)

Claims development tables are shown on an underwriting year basis below.

Gross insurance ultimate contract outstanding claims provisions as at 31 December 2019:

Underwriting Year	2018	2019	Total
Estimate of ultimate gross claims:	£000	£000	£000
At end of underwriting year	29,554	32,732	32,732
One year later	34,810	-	34,810
Current estimate of ultimate claims	<u>34,810</u>	<u>-</u>	<u>67,542</u>
Cumulative payments			(13,501)
Gross unearned claims reserve			(14,220)
Gross claims reserve	<u><u>34,810</u></u>	<u><u>-</u></u>	<u><u>39,821</u></u>

Net insurance ultimate contract outstanding claims provisions as at 31 December 2019:

Underwriting Year	2018	2019	Total
Estimate of ultimate net claims:	£000	£000	£000
At end of underwriting year	18,430	18,636	18,636
One year later	20,590	-	20,590
Current estimate of ultimate claims	<u>20,590</u>	<u>-</u>	<u>20,590</u>
Cumulative payments			(9,534)
Net unearned claims reserve			(8,665)
Net claims reserve	<u><u>20,590</u></u>	<u><u>-</u></u>	<u><u>21,027</u></u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

f. Insurance Risk (continued)

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors such as public attitude to claiming; economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit for the year and member's balances.

31 December 2019	Change in Assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit for the year and members' balances
		£000	£000	£000
Average claim cost	+10%	3,943	1,636	(1,636)
Average number of claims	+10%	3,943	2,033	(2,033)

31 December 2018	Change in Assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit for the year and members' balances
		£000	£000	£000
Average claim cost	+10%	1,599	737	(737)
Average number of claims	+10%	1,599	920	(920)

The Syndicate has gross material exposure to Typhoon Hagibis and Typhoon Faxai in the 2019 Year of Account. The net exposure to these losses are immaterial. Last year, the Syndicate had material exposure to the Hurricane Michael, Typhoon Jebi, the Camp and Woolsey Wildfires and the Lurssen Shipyard loss in the 2018 Year of Account. During the year, the exposure to Typhoon Jebi and Lurssen Shipyard have deteriorated; however, there has been an improvement for the Camp and Woolsey Wildfires. This increases the uncertainty in an adverse direction significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. By performing sensitivity analysis on the losses pertaining to these loss events, it was determined that a 10% increase on the gross reserves will have a minimal impact on the net reserves due to the reinsurance programme covering the affected classes of business. The Syndicate does not have any material exposure to these losses on any of the older years of account.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

f. Insurance Risk (continued)

The Agency uses both its own and commercially available proprietary risk management software to assess Syndicate catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an un-modelled event are greater than those arising from a modelled event.

The following table shows hypothetical claims arising for the largest realistic disaster scenarios based on the Syndicate’s average risk exposures during 2019.

	Estimated net loss
	\$m
US earthquake	4
US windstorm	9
Japan earthquake	2
Japan windstorm	0
Europe windstorm	<u>1</u>

The following table shows hypothetical claims arising for the largest realistic disaster scenarios based on the Syndicate’s average risk exposures during 2018.

	Estimated net loss
	\$m
US earthquake	3
US windstorm	4
Japan earthquake	1
Japan windstorm	2
Europe windstorm	<u>2</u>

The Syndicate and Agency operate in accordance with approved outwards reinsurance procedures in place covering the purchase of reinsurance and the procedures for making recoveries. The Syndicate also operates in accordance with an approved Agency policy for the approval of reinsurers in order to minimise credit risk.

The Agency assesses the Syndicate’s need for reinsurance on a continuous basis, where the Syndicate takes a share of Barbican Syndicate 1955's reinsurance programme. The structure of the reinsurance programme is part of the annual planning process and broad estimates of reinsurance spend are made. The programme is subject to extension or modification as the year progresses. Procedures for purchasing approval and transactions processing are set out in a procedures manual.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

f. Insurance Risk (continued)

The table below sets out the concentration of outstanding claim liabilities by business segment:

31 December 2019	Gross liabilities	Reinsurance assets	Net liabilities
	£000	£000	£000
Energy - marine	945	(464)	481
Energy - non-marine	3,722	(1,796)	1,926
Marine, aviation and transport	10,895	(6,147)	4,748
Fire and other damage to property	10,632	(7,346)	3,286
Third party liability	12,523	(2,824)	9,699
Accident and health	749	(89)	660
Pecuniary loss	355	(128)	227
Total	<u>39,821</u>	<u>(18,794)</u>	<u>21,027</u>

31 December 2018	Gross liabilities	Reinsurance assets	Net liabilities
	£000	£000	£000
Energy - marine	221	(108)	113
Energy - non-marine	712	(213)	499
Marine, aviation and transport	6,401	(2,320)	4,081
Fire and other damage to property	5,316	(3,035)	2,281
Third party liability	3,246	(1,102)	2,144
Accident and health	96	(13)	83
Pecuniary loss	-	-	-
Total	<u>15,992</u>	<u>(6,791)</u>	<u>9,201</u>

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the countries where business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

At 31 December 2019	Gross liabilities	Reinsurance assets	Net liabilities
	£000	£000	£000
United Kingdom	10,112	(4,720)	5,392
EU Member States	4,466	(2,123)	2,343
USA	10,041	(4,727)	5,314
Rest of the World	15,202	(7,224)	7,978
Total	<u>39,821</u>	<u>(18,794)</u>	<u>21,027</u>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

f. Insurance Risk (continued)

At 31 December 2018	Gross liabilities	Reinsurance assets	Net liabilities
	£000	£000	£000
United Kingdom	6,070	(2,578)	3,492
EU Member States	1,408	(598)	810
USA	5,258	(2,233)	3,025
Rest of the World	3,256	(1,383)	1,873
Total	<u>15,992</u>	<u>(6,791)</u>	<u>9,201</u>

**Key Assumptions**

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

g. Credit Risk

Credit risk arises where one party is exposed to a loss through another party failing to perform its financial obligations to the other party, including failure to perform in a timely manner. Examples of credit risk arising in insurance are from premium debtors, where cover under contracts of insurance may either commence before premiums become due or continue after their non-payment. It can also arise if a reinsurer fails to fulfil its financial obligation to pay where a valid claim has been made.

Credit risk is a concern in a prudential context because of the risk of erosion of capital due to persistent credit losses, so threatening its viability as a going concern and hampering the Syndicate's ability to meet its own obligations to its insureds.

The Agency has adopted a prudent investment policy. Exposure to investment counterparty risk has been minimised by appointing experienced third party investment managers and operating to agreed investment guidelines which determine the investments to which the Syndicate is exposed. Investment performance is overseen by the Investment Committee.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

g. Credit Risk (continued)

The overall responsibility for the oversight of intermediaries and reinsurers has been delegated to the Agency Board’s Risk and Capital Committee. The Risk and Capital Committee reviews the credit ratings of reinsurers on a quarterly basis, approves the use of intermediaries and reinsurers and reviews any late settlement or reputational issues of the counterparties. The Finance and Compliance functions support the formation and renewal of intermediary relationships, to help ensure that inappropriate parties are not used by the Syndicate. The policy for approving reinsurers includes limits on counterparty exposure in order to limit the total credit risk the Syndicate may be exposed to in respect of any one reinsurer.

The credit risk policy covers the quota share contract with Barbican Syndicate 1955. The contract operates on a “funds withheld basis” whereby the proportion of the ceded premiums are considered as combined funds from which loss recoveries will be drawn. The associated cash flows are expected to occur following the closure of the Years of Account at 36 months. These amounts are shown as “Debtors arising out of reinsurance operations” in the tables which follow.

A ratings table for the Syndicate’s financial assets is given below.

At 31 December 2019	AA £000	A and below £000	Unrated £000	Total £000
Reinsurers' share of claims outstanding	1,334	15,846	1,614	18,794
Debtors arising out of reinsurance operations	-	27,783	-	27,783
<b>Total</b>	<b>1,334</b>	<b>43,629</b>	<b>1,614</b>	<b>46,577</b>

  

At 31 December 2018	AA £000	A and below £000	Unrated £000	Total £000
Reinsurers' share of claims outstanding	80	6,185	527	6,791
Debtors arising out of reinsurance operations	-	14,070	-	14,070
<b>Total</b>	<b>80</b>	<b>20,255</b>	<b>527</b>	<b>20,861</b>

The source for ratings is Standard & Poor’s and A.M. Best.

# Barbican Syndicate 6132

31 December 2019

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11 Risk Management (continued)

#### g. Credit Risk (continued)

The ageing of the Syndicate's assets is disclosed below:

At 31 December 2019	Neither past due nor impaired £000	Up to three months £000	Three to six months £000	Six months to one year £000	Greater than one year £000	Total £000
Reinsurers' share of claims outstanding	18,794	-	-	-	-	18,794
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	27,783	-	-	-	-	27,783
Reinsurance recoverables on paid claims	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
<b>Total</b>	<b>46,577</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46,577</b>

At 31 December 2018	Neither past due nor impaired £000	Up to three months £000	Three to six months £000	Six months to one year £000	Greater than one year £000	Total £000
Reinsurers' share of claims outstanding	6,791	-	-	-	-	6,791
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	14,070	-	-	-	-	14,070
Reinsurance recoverables on paid claims	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
<b>Total</b>	<b>20,861</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,861</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

h. Foreign Currency Risk

In order to minimise market risk arising from foreign exchange the Syndicate matches the currency of anticipated liabilities to its assets. Shortfalls of sterling to settle expenses are managed by the sale of surplus currencies as required.

Cash flow reports form part of monthly accounting. Cash flow forecasts are performed regularly to ensure currencies are matched and to minimise any foreign exchange risk.

The Syndicate maintains ledger balances in six main currencies: Sterling, Euros, US Dollars, Japanese Yen, Australian Dollars and Canadian Dollars. The most important non-sterling currency exposure relates to the US dollar. As well as the US Situs business, exposures arise from a number of classes of business transacted outside of the USA, mainly Property. Maintenance of currency ledgers enables the Agency to monitor foreign exchange risk.

The carrying value of total assets and liabilities by currency is as follows:

At 31 December 2019	GBP £000	US \$ £000	Euro € £000	CAD \$ £000	Other £000	Total £000
Reinsurers' share of technical provisions	1,724	20,953	1,527	132	691	25,027
Reinsurance receivables	3,406	18,631	1,350	1,149	3,247	27,783
Other debtors	1,094	2,834	258	67	208	4,461
<b>Total assets</b>	<b>6,224</b>	<b>42,418</b>	<b>3,135</b>	<b>1,348</b>	<b>4,146</b>	<b>57,271</b>
Technical provisions	(5,839)	(41,126)	(3,415)	(826)	(9,269)	(60,475)
<b>Total Liabilities</b>	<b>(5,839)</b>	<b>(41,126)</b>	<b>(3,415)</b>	<b>(826)</b>	<b>(9,269)</b>	<b>(60,475)</b>
<b>Members' balances</b>	<b>385</b>	<b>1,292</b>	<b>(280)</b>	<b>522</b>	<b>(5,123)</b>	<b>(3,204)</b>
At 31 December 2018	GBP £000	US \$ £000	Euro € £000	CAD \$ £000	Other £000	Total £000
Reinsurers' share of technical provisions	1,630	10,864	176	40	90	12,800
Reinsurance receivables	2,040	7,553	1,957	401	2,119	14,070
Other debtors	746	2,177	217	37	191	3,368
<b>Total assets</b>	<b>4,416</b>	<b>20,594</b>	<b>2,350</b>	<b>478</b>	<b>2,400</b>	<b>30,238</b>
Technical provisions	(5,529)	(20,051)	(2,638)	(324)	(4,651)	(33,193)
<b>Total Liabilities</b>	<b>(5,529)</b>	<b>(20,051)</b>	<b>(2,638)</b>	<b>(324)</b>	<b>(4,651)</b>	<b>(33,193)</b>
<b>Members' balances</b>	<b>(1,113)</b>	<b>543</b>	<b>(288)</b>	<b>154</b>	<b>(2,251)</b>	<b>(2,955)</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

i. Sensitivity Analysis

Sensitivity analysis is carried out on the underwriting/investment portfolio in relation to key parameters such as: exchange rates, market rating cycles, coverage cycles and catastrophe model output. At 31 December 2019, the Syndicate used closing rates of exchange of £1: \$1.32 and £1: €1.18 (31 December 2018: £1: \$1.27 and £1: €1.11).

The Syndicate performs sensitivity analysis based on a 10% strengthening or weakening of Pound Sterling against the Euro and US Dollar. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities.

Increase/(decrease) on members' balances	2019	2018
	£000	£000
Strengthening of US dollar	144	60
Weakening of US dollar	(117)	(49)
Strengthening of Euro	(31)	(32)
Weakening of Euro	<u>25</u>	<u>26</u>

The Syndicate does not hold any investments but is indirectly exposed to interest rate risk arising on the share it takes of Barbican Syndicate 1955's investment income. Changes in interest yields, with all other variables constant, would result in changes in the value of the investments held by Barbican Syndicate 1955. This would affect reported profits and members' balances of the Syndicate as indicated in the stress test below.

	Impact on profit		Impact on members' balances	
	2019	2018	2019	2018
	£000	£000	£000	£000
Shift in yield (basis points)				
50 basis points decrease	130	59	130	59
50 basis points increase	(128)	(58)	(128)	(58)

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

j. Liquidity Risk

Liquidity risk is the risk that a Syndicate, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

Future Cash Flows

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

At 31 December 2019	< 1 yr £000	1-3 yrs £000	3-5 yrs £000	> 5 yrs £000	Total £000
Claims outstanding	<u>6,581</u>	<u>14,869</u>	<u>9,116</u>	<u>9,255</u>	<u>39,821</u>
At 31 December 2018	< 1 yr £000	1-3 yrs £000	3-5 yrs £000	> 5 yrs £000	Total £000
Claims outstanding	<u>2,421</u>	<u>7,283</u>	<u>3,465</u>	<u>2,823</u>	<u>15,992</u>

k. Operational Risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is inclusive of all internal processes, manual and computerised, and all systems; internal and external fraud; and employee competence. Employee relations and culture are included in people risks.

An assessment of operational risk is important as it can affect the Syndicate’s solvency, or lead to unfair treatment of consumers or lead to financial crime. The Agency considers all operational risk events that may affect these matters in establishing and maintaining its systems and controls.

The Agency’s strategy is to implement and maintain a high level of operational processes and procedures. These are subject to ongoing review and update. This will help reduce and control operational risk more effectively and make any subsequent loss more manageable. The operational controls are designed to meet the requirements of relevant regulatory bodies and agreed best practice. All operational controls are monitored on a regular basis to ensure that they remain fit for purpose.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

l. Group Risk

Group risk is the risk that the operation of one part of the Arch Group adversely affects another. Group risk includes:

- Negative publicity;
- Inadequate communication within the organisation;
- Undue influence from fellow subsidiaries, holding companies or stakeholders;
- Financial pressures to make funds available to the Arch Group; and/or
- Financial restraint leading to shortcomings in core activities such as reinsurance purchase.

The Agency's overall strategy is to minimise any Group risk by ensuring there are clear lines of authority and communication between related parties, that intra-Group reinsurance is placed at arm's length and that any intra-Group agreements are formed objectively and clearly understood by all parties.

m. Dependencies between Risk Categories

Under certain conditions, the outcome with respect to one risk category could influence the outcome of another. There are two such specific dependencies which the Agency has identified:

- A major loss event could lead to widespread failures within the reinsurance market. The loss would need to be very large since the reinsurance market, particularly that part of the market to which the Syndicate is exposed, has in the past shown itself to be robust enough to withstand losses such as World Trade Centre and major hurricane losses.
- There are a number of operational risks that have the potential to correlate with major natural catastrophe losses. For example, the consequences of inadequately monitoring liquidity are only likely to be suffered should there be a significant call on liquidity (likely to happen after a major loss event).

In terms of other loss types, an aggregation of casualty claims might coincide with a weak economy. Historically, although more commonly a weak economy has coincided with a period of lower interest rates, this relationship varies depending upon the cause of the weak economy and in some instances can be accompanied by higher interest rates. The timing of the claims experience is also far from clear; in some instances, recessionary claims emerge with clarity only with a sufficient time lag (even under claims-made cover) such that the economy is improving again and interest rates might be rising. Therefore, although there is an argument for some degree of positive correlation, it is not clear how significant this might be.

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 12 Related Parties

a. Special Purpose Arrangements ("SPA") Cessions

Barbican Syndicate 1955 ceded reinsurance to the Syndicate on a funds withheld basis.

For the 2019 Year of Account, Barbican Syndicate 1955 ceded 15.2% (2018: 10.9%) of the Whole Account result, and an additional 5% of Financial Institutions and Cyber Classes to the Syndicate. These cessions resulted in the Syndicate receiving £51.4m (2018: £39.8m) of reinsurance premium from Barbican Syndicate 1955 during the year and having a balance of £27.8m receivable from Barbican Syndicate 1955 on a funds withheld basis as at 31 December 2019 (2018: £14.1m).

b. Barbican Companies

The Syndicate, along with Barbican Syndicate 1955, Syndicate 1856 and SPA 6118, is managed by the Agency, whose parent company is Barbican Holdings (UK) Limited. The ultimate parent company is Arch Capital Group Limited, a Bermuda registered company which consolidates the Syndicate result. A Managing Agency fee of £0.4m (2018: £0.3m) was payable from the Syndicate to the Agency during the year.

The Directors consider the ultimate controlling party to be Arch Capital Group Limited.

#### 13 Funds at Lloyd's

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

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

#### 14 Off-Statement of Financial Position items

The Syndicate has not been party to any arrangement, not reflected in its Statement of Financial Position, where material risks or benefits arise for the Syndicate.

#### 15 Derivatives

The Syndicate has not purchased any forward foreign currency contracts to hedge currency exposure or entered into any other derivative contracts within the period.

#### 16 Post Reporting Date Events

As far as the Agency is aware, no post reporting date events have occurred which would have a material impact on these annual accounts.