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The specialist motor insurer

Report and Accounts 2019

Syndicate 218

The specialist
motor insurer

Contents

Directors and administration

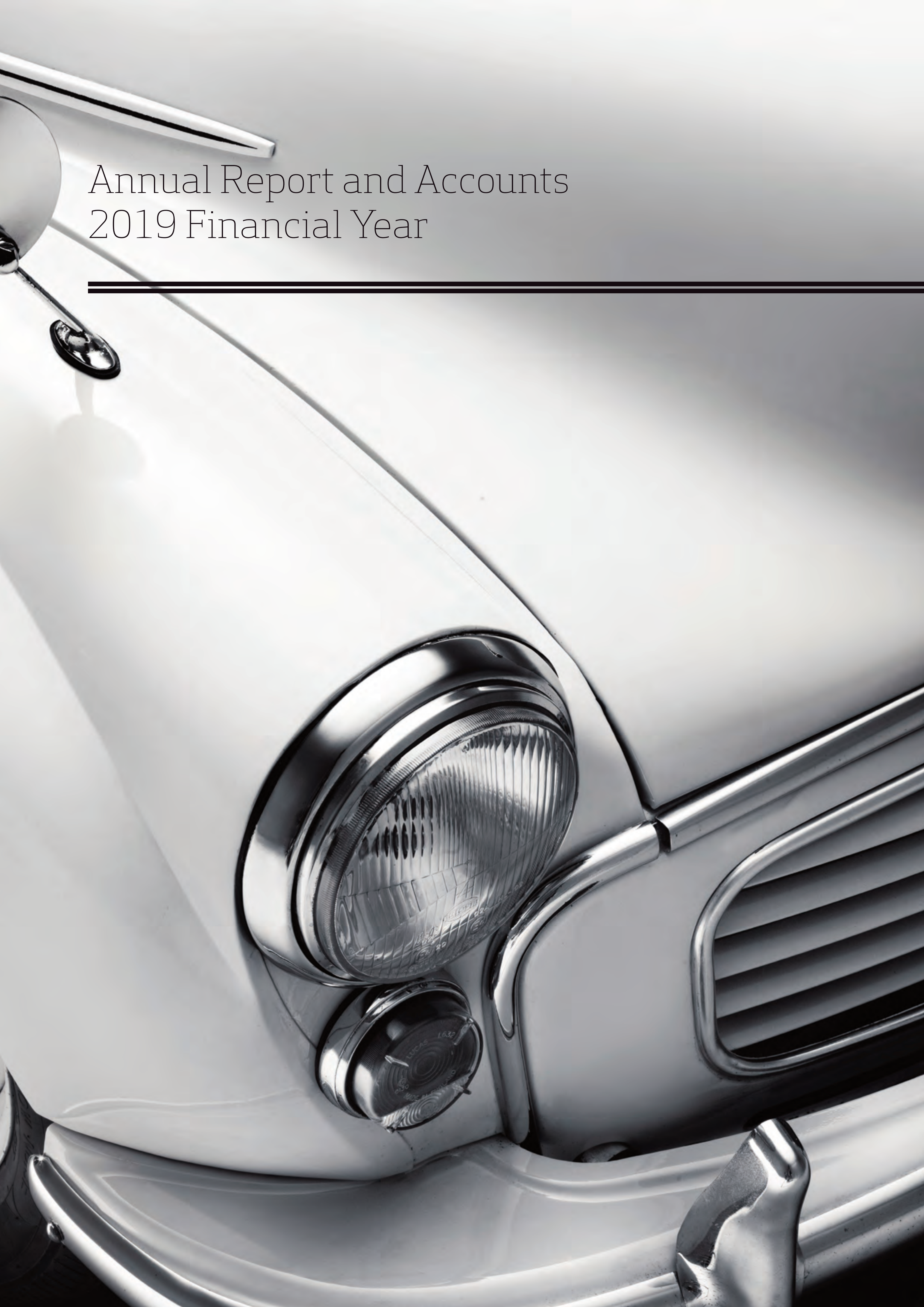
MANAGING AGENT

Managing agent	ERS Syndicate Management Limited
Directors	Patrick H O'Sullivan (Chairman) Nicholas J Addyman Gary S Barker (resigned 12 June 2019) Amanda J Blanc (appointed 2 January 2020) Dr Henry O Brunjes (resigned 31 March 2019) Robert P Gullett Martin Hall Robert H Johnson (appointed 17 December 2019) Ian D Parker Nicholas C T Pawson Peter N Smith (appointed 31 July 2019) Ignace L G van Waesberghe Katharine A Wade (resigned 16 August 2019) Ryan R Warren Christopher E Watson Donna S Willis
Company secretary	David C Turner
Managing agent's registered office	21 Lombard Street London EC3V 9AH
Managing agent's company number	00426475

SYNDICATE

Active underwriter	Martin Hall
Bankers	National Westminster Bank Plc Citibank NA Royal Bank of Canada Dexia
Investment managers	Conning Asset Management Limited SYZ & Co Asset Management (Europe) Limited
Registered auditors	PricewaterhouseCoopers LLP

Annual Report and Accounts
2019 Financial Year



Report of the managing agent

ERS Syndicate Management Limited ("ERS SML" or "the Managing Agent"), the managing agent of Syndicate 218 ("the Syndicate"), presents its report for the year ended 31 December 2019.

This Annual Report has been prepared using the annual basis of accounting as required by regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103 "Insurance Contracts" ("FRS 103") where applicable.

Separate underwriting year accounts for the 2017 year of account that closed at 31 December 2019 are included from page 50.

Strategic Review

Principal activity

Syndicate 218 retains its clear strategy of being a specialist motor only, broker only insurer, focused on delivering sustainable profitable returns. It operates under a strong brand name, ERS, and offers a broad range of specialist motor insurance products for the UK personal lines and commercial segments. The broad product base provides risk diversity between the classes and assists in easing the performance impact of the cyclical nature of the UK motor insurance market.

The four key elements of ERS strategy remain unchanged, and are as follows:

- ERS is deliberately different. ERS is the largest specialist motor insurer in Lloyd's and the only motor focused syndicate. It focuses on drivers with needs that are different or more intricate, have a passion for their vehicle or depend upon it for their livelihood. Its investment in expert underwriters, data and analytics, and claims specialists creates an offering that is distinct from anyone else in the market.
- ERS has strong broker relationships and continues to be committed to distribution partnerships with specialist brokers. Their knowledge and understanding of their customers and market together with ERS' underwriting and claims capability and capacity continues to drive mutual and sustainable relationships. As more and more motor insurers move towards screen-only rated products, an opportunity exists for ERS to capitalise on those segments where there are fewer insurance alternatives for the customer where real underwriting expertise is required.
- ERS continues to enhance its capabilities and will adopt technology where it improves the customers' experience, the efficacy of underwriting judgement, the efficiency of the insurance process, and the settlement of genuine claims. This includes investment in management information and technical pricing capabilities, developing fraud prevention interventions and improvements in risk selection and leakage prevention. ERS continues to leverage and develop its previous investment in a state-of-the-art IT system to support its growth.
- ERS remains committed to be a sustainable business whose consistent underwriting approach provides brokers and their customers' protection in what continues to be a volatile market. ERS benefits from the Lloyd's credit rating which has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard & Poor's and AA- (Very strong) rating from Fitch Ratings. ERS believes credit strength has become a more important placing consideration for brokers, especially given recent events where a number of motor underwriters have exited UK Motor as a class.

2019 Overview

The business grew in 2019; gross written premiums increased by 9.3% (*2018: -12.4%*) and the number of vehicles on cover grew by 13% (*2018: -20%*). This growth arose from better new business trading following the successful completion of distribution and pricing initiatives introduced in the previous year. A new product targeting non-standard retail customers via price comparison websites, using a broker, launched in December 2018 was a key source of the new premium income. Income also benefitted from an in-house e-trade solution allowing brokers to access several other ERS specialist products online.

ERS has continued to focus on profitability by maintaining pricing discipline and employing developments that leverage additional data sources and modern analytical methods to more accurately assess risk and validate customers' details. In addition, ERS made significant technology investments to build on its legacy-free IT applications; including:

- Insurer Hosted Pricing ("IHP") rolling out across more products, helping get prices to market faster and providing more risk data than ever;

- Data Enrichment enhancements providing underwriters more confidence that the risk is as presented by the broker; and
- 12% of ERS' Commercial new business premium is now traded online through e-trade, turning the platform to a multi-million pound distribution platform within 10 months.

ERS saw elevated motor claims costs in the year, with increases in the cost of damage claims from more severe accidents and more thefts than the prior year, and a higher number of larger bodily injury losses. As a result, the 2019 calendar year loss ratio, after the impact of the July Ogden rate change, was 68.8% (2018: 63.7%) which, while higher than the previous year, is still a material improvement on the performance in the preceding five years.

ERS remains confident in its ability to leverage its initiatives on underwriting, pricing and data analytics, claims intervention and fraud prevention to capitalise on long-term profitable growth opportunities.

During 2019, independent research reported that 35% (2018: 34%) of brokers considered ERS first for their specialist motor risks, well ahead of second placed carriers. Furthermore, ERS is also considered first for Agriculture (23% of brokers), Prestige (30% of brokers) and Enthusiast (31% of brokers) classes, with the latter two posting significant annual growth at the expense of other insurers. This continues to affirm the status of ERS as a specialist motor insurer of choice for motor brokers.

Market overview
The UK domestic motor insurance market remained competitive in 2019. Market pricing has lagged claims inflation with prices more-or-less flat for the past couple of years; and according to a December 2019 press release from EY, claims inflation was widely reported at around 6% during the year. *Source: EY UK press release (article: 'The UK motor insurance market to record underwriting loss in 2019 following record-breaking year' dated 2 December 2019)*.

Motor claims severity inflation remained high in 2019 driven primarily by the higher cost of repairing or replacing parts exacerbated by the technology in modern vehicles. While technology has improved safety and, as a result, reduced accident frequency, it has led to an increase in the frequency of thefts. Several cars are vulnerable to thieves intercepting the signal between the keyless fob and the car in order to gain access and start the engine. Police records continue to show an increase in vehicle related theft, with no indications that this trend will slow anytime soon.

The continuing claims inflation, together with the impact of the July Ogden discount rate change, will have worsened motor loss ratios. Furthermore, the motor excess-of-loss reinsurance cost increases (+5% to +35% per a 2019 reinsurance prices review performed by the Financial Times in January 2020) and increases to the levies imposed by the Motor Insurers' Bureau will put pressure on margins for those affected. Both factors should push insurers to increase prices. *Source: Financial Times (article: 'Reinsurance renewal prices hold the line in face of disasters' dated 2 January 2020).*

Contrarily, the market has grappled with the implementation of sweeping reforms to the personal injury compensation system as well as various regulatory interventions that are expected to have a deflationary effect; this has led to some participants continuing to price below inflation.

Market conditions have led to several motor insurers and managing general agents ("MGAs") exiting the market during the year. Capacity has decreased in the market as a result, which should provide opportunity for price increases.

Brexit
The UK's exit from the European Union on 31 January 2020 will have a limited impact on ERS's ability to trade because its business is focused on UK motor insurance. Arrangements are in place to continue to service the small number of customers with vehicles outside of the UK, mostly in the Republic of Ireland. There remains a risk to the supply chain for car manufacturers and car parts suppliers, which may further exacerbate the claims inflation that has been seen in the last period. ERS launched a self-service portal for Green Cards on 7 March 2019 to allow brokers to produce Green Cards as requested by customers for travel outside the UK and this remains in operation in the event of a hard or a no-deal Brexit.

Ogden discount rate ("Ogden")
The Ogden discount rate is used by the courts to determine lump sum awards to compensate claimants for future losses and cost of care in personal injury cases. The Lord Chancellor announced on 15 July 2019 a change in the Ogden discount rate from minus 0.75% to minus 0.25% to be effective from 5 August 2019. Under the Civil Liability Act 2018 the discount rate will be reviewed again within a five-year period.

The change in the Ogden discount rate was to a lower rate than the 0% assumed in the technical claims reserves, in common with some other insurers, which itself was driven by guidance from the Ministry of Justice. Updating the claims provisions to a minus 0.25% Ogden discount rate decreased the 2019 calendar year underwriting result by £3.6m.

Reinsurance

The 2018 reinsurance coverage with Third Point Reinsurance Company Ltd ("TPRe") was commuted and replaced with a new contract bound effective on 30 June 2019. The new reinsurance contract continues to protect £122.0m of reserves across the 2010 to 2019 underwriting and accident years, with a stop loss to protect the 2019 and 2020 underwriting years in the 2020 accident year.

ERS purchased excess of loss reinsurance cover protecting losses from business written in 2019 subject to a deductible of £2.5m per event.

Financial performance

The 2019 calendar year result was an operating profit of £13.9m (*2018: £11.1m profit*) which is an improvement on the previous year and is the largest calendar year profit since change of control to Aquiline in 2013.

Gross written premiums increased by 9.3% (*2018: -12.4%*) to £360.0m (*2018: £329.4m*). This increase arose from better new business trading following the successful completion of distribution and pricing initiatives introduced the previous year, and growth in the new product targeting non-standard retail customers launched in 2018 on price comparison websites.

The combined operating ratio was 99.7% (*2018: 96.1%*). Last year, the 2018 financial year's loss ratio benefitted from a £7.9m one-off release in reserves from a change in the Ogden rate assumption from minus 0.75% to 0%. Conversely, the 2019 calendar year had a £3.6m strengthening of reserves from the Ogden rate changing to minus 0.25%.

The loss ratio increased to 68.8% (*2018: 63.7%*) from the previous year. This is attributable principally to the following factors:

- High claims inflation – The cost of accidental damage claims increased during the year ahead of our price increases. This was driven by ongoing above trend inflation in the cost of replacing parts and repairing vehicles from more severe accidents and an increase in the frequency of theft claims, particularly of vehicles using keyless technology;
- Higher number of larger bodily injury claims – There has been an unusually high number of larger bodily injury claims notified during the last quarter of the year. Analysis of the circumstances surrounding each of these cases does not indicate any identifiable trend; and
- Ogden rate change – Last year, the 2018 financial year's loss ratio benefitted from a £7.9m release in reserves from a change in our assumptions in the rate from minus 0.75% to 0%, while the 2019 financial year's loss ratio was impacted by a £3.6m increase in reserves from the July Ogden rate change to minus 0.25%.

ERS has improved its cost efficiency during the year and the expense ratio has reduced to 16.6% (*2018: 17.2%*).

ERS's investment portfolio performed strongly in the calendar year with a return of 3.4% (*2018: minus 0.3%*). Markets rebounded substantially in the year following sharp falls on world markets and extreme levels of investor pessimism in late 2018. ERS employed a hedging strategy on part of the portfolio to manage the anticipated higher volatility from Brexit and political uncertainty from a general election. The hedge was used on two occasions, first between 7 March 2019 to 26 April 2019 and then from 18 October 2019 to 3 January 2020.

Key performance indicators

Syndicate 218's key financial indicators are as follows:

Financial Year £'000	2019	2018	2017*	2016	2015*
Gross Written Premium	359,961	329,398	376,116	406,103	393,675
Net Earned Premium	319,889	322,683	386,961	377,790	363,548
Profit/(loss) for financial year	13,892	11,122	(12,173)	(21,743)	6,003
Claims Ratio**	68.8%	63.7%	76.9%	79.2%	68.1%
Commission Ratio	14.3%	15.2%	15.2%	15.6%	16.0%
Expense Ratio	16.6%	17.2%	12.8%	13.7%	15.7%
Combined Operating Ratio	99.7%	96.1%	104.9%	108.5%	99.8%

* The 2015 & 2017 key financial indicators are impacted by the reduced earnings after the impact of the reinsurance with TPRe, therefore TPRe has been excluded to aid comparisons.

** The claims ratios are inclusive of claims handling expenses, risk margin and ULAE.

Review of the business

Underwriting outlook

The 2019 underwriting year is developing into a positive year showing both growth in gross written premiums and better loss and commission ratios compared to the previous underwriting year. Business written during 2019 benefitted from distribution and underwriting initiatives and the investments made in 2018 to improve risk selection and pricing. IHP technology that has been implemented across several products enables ERS to deliver quotations to brokers and customers in real-time improving the cost efficiency of the process while providing the ability to effect price changes instantly. Income also benefitted from ERS's e-trade solution that enables brokers to access many of our other specialist products online.

The business is structured around products and classes. The most significant areas of growth were in the Fleet and Non-Standard Retail classes. A new product targeting non-standard private car customers launched in December 2018 on price comparison websites was a key source of the new premium income for the Non-Standard Retail class. Steady rates of growth were also seen in the Commercial class.

The competitive environment and the requirements to be successful differ in each product, and the role of the respective heads of class and product managers is to understand these and react accordingly. ERS targets market segments that are less commoditised and where the specialist knowledge of its underwriting and claims teams are factors in the performance and profitability of its products.

The UK motor market remained competitive in 2019 as insurers adopted different pricing strategies in anticipation of and as a result of the July Ogden rate change, and uncertainties in the outcome of the Civil Liabilities Act and whiplash reforms. ERS has continued to focus on profitability by maintaining pricing discipline and employing developments that leverage additional data sources and modern analytical methods to more accurately assess risk and validate customers' details.

The estimated overall loss ratio for the 2017 underwriting year is set to be one of the best since 2013. This is as a result of a combination of improved data informing risk selection, more sophisticated pricing and stronger rating strength. Greater stability in service delivery and improved propositions promoted by sales and marketing initiatives has attracted better quality business. Furthermore, 2017 underwriting year benefitted from favourable large loss claims development during the period.

The outlook for 2020 is that the UK motor insurance market will continue to be competitive. However, margins are reduced from the ongoing above trend motor claims inflation, increases in excess of loss reinsurance costs, increases in levies from the Motor Insurers' Bureau and reduced insurer capacity which combined we expect to put upward pressure on prices. The deflationary effects of the whiplash reforms may lead some participants to underprice business. On balance, though, our expectation is of an increase in premium rates during 2020 with some segments still providing opportunities for growth in volume and profitability for ERS.

Class of business spotlight

Agriculture

The Agriculture class covers farms, estates, parks, allied rural and enterprises that require the use of agricultural vehicles. This includes golf courses and educational facilities.

ERS is recognised by brokers as the leading Agricultural motor insurer in a market dominated by NFU Mutual, a direct insurer. Following investments in our proposition over recent years, 2019 has delivered strong underlying growth after accounting for the run-off of one large broker account.

The 2019 loss ratio is much improved over the prior year, having returned to the long-term average following poorer experience from the extreme weather in 2018 leading to a number of large fire and bodily injury losses.

The plan for 2020 is to grow the book in a controlled manner through a wider panel of specialist brokers by harnessing specialist expertise and experience in underwriting, pricing and claims management.

Bespoke

The Bespoke class encompasses a range of service-led speciality personal lines products. These include supercars, enthusiast vehicles such as classic cars, motorhome and kit cars, and high-risk distressed drivers. The class also incorporates several bespoke schemes and affinity accounts.

The Prestige offering includes supercars and professional sports and entertainment products. During 2019, Prestige improved its product offering which led to a 17% increase in premium income and strengthened its position in the market. Improvements included establishing a dedicated prestige claims team with superior service, growing its team of specialist underwriters and increasing its regional presence. Furthermore, Prestige has sought to leverage its wider investments in data and analytics to increase pricing sophistication and to grow further in 2020.

Enthusiast has a high customer retention rate and the product continues to deliver good underwriting results. The use of the IHP technology has enabled wider distribution, improved efficiency and more responsive pricing. In 2020, Enthusiast will utilise the established distribution and sophisticated pricing capabilities to automate more of the process and create more time for its specialist underwriters to focus on those larger, more complex cases where they can add greater value to its customers.

The High-Risk segment of the book focuses on drivers with distressed features such as motoring or criminal convictions. Market conditions in this segment have become more competitive and margins reducing. ERS has focused on profitability by maintaining underwriting and pricing discipline. ERS has continued to invest in alternative data sources to validate and assess risks and to improve the accuracy of our pricing. As a result, the risk profile of the book has improved which in turn has improved its profitability.

Schemes and Affinities targets niche customer groups who find it challenging to purchase car insurance through normal distribution channels. ERS believe that this offering presents an opportunity for profitable growth in 2020, both through growing existing schemes and from designing solutions for new customer groups. For example, ERS is developing a solution for customers who need short-term insurance cover. This market segment is a rapidly growing one in which ERS has the capability to provide a valuable specialist offering.

The priority for the Bespoke class in 2020 is to maintain profitability through good risk selection and pricing discipline and capitalise on profitable opportunities where they arise; and therefore, there are modest growth expectations.

Commercial
The Commercial class covers a variety of specialist commercial vehicles. These include taxis, minibuses, haulage, buses, coaches, showman's vehicles, and other specialist commercial vehicles such as catering vehicles or private ambulances.

The profile of the book has remained relatively consistent over 2019. The use of IHP technology has improved efficiency and the responsiveness of pricing across most of the commercial products. Focus continued on profitability, at the expense of growth, by maintaining pricing discipline and leveraging additional data sources and analytical methods to more accurately assess risk.

The estimated loss ratio for 2019 improves on prior years' and ERS expects to see incremental improvements in the loss ratio in 2020 as data is used more effectively in decision making.

ERS will look for opportunities to grow in 2020 by leveraging its new e-trade platform for brokers to be able to access several of its commercial products electronically.

Fleet
The Fleet class provides cover for fleets of five or more vehicles. It is made up of four propositions: Own Goods and Trades, Passenger Transport, Goods for Hire and Reward, and Non-Conventional Arrangements. These are traded on both a retail and London market wholesale basis.

During 2019, Fleet delivered profitable growth from a targeted approach to new business and effective management of the renewal portfolio, which was underpinned by a "Protect, Improve and Lose" strategy to optimise rate increases and risk profile improvements.

The successful trading performance was supported by investments in its underwriting capability and pricing sophistication and an improved customer journey from process and technology enhancements.

The competitor landscape in 2019 remained dynamic. In general, MGA's and composite insurers continued to be competitive on price and often packaged up risks with property and liability covers, while Lloyd's market insurers tended to reduce their risk appetites and maintain pricing discipline in favour of profitability.

In 2020, ERS will continue to improve its underwriting capability, trading performance and profitability by building on the investments made in data and pricing analytics. ERS will continue to enhance its propositions to increase market penetration from an improved customer journey, while utilising commercial data enrichment in risk selection and pricing to remain agile in what is expected to remain a competitive fleet market.

Motorcycle
The Motorcycle class continues to target the classic bike insurance market and related specialist affinity customer segments.

These segments have historically performed much better in terms of loss ratio than the modern bike accounts and that has continued to be the case in 2019. The focus on classic bikes supports ERS's relationships with many of our core classic car brokers. This will remain the strategy in 2020 and we expect the account to remain small but profitable.

Motor Breakdown

During 2019, the Motor Breakdown portfolio grew positively after time was spent improving internal systems and processes. The improvements included better performance data and management information and targeted pricing changes were applied to improve the underlying profitability of the account.

In 2020, ERS will make further improvements to the online distribution platform and market the product to support growth.

Non-Standard Retail

The Non-Standard Retail class targets private cars and vans with risk characteristics that are less standard in nature. Following a pilot in 2018, a new private car product was launched on price comparison websites via one broker to target these non-standard segments using a proprietary rating structure and our IHP technology allowing dynamic pricing changes to be implemented quickly. In 2019, confidence in the product's performance has grown as ERS further enriched the data used to assess, validate and price risk, and has implemented a more advanced generation of machine learning module to support its pricing algorithm. This is expected to be the first of many as ERS continues to develop its data analytics capabilities.

Focus has been on the product's profitability by maintaining underwriting and pricing discipline, and frequent price changes were made during 2019 to ensure adequate levels of rate were carried to deliver targeted profitability.

In 2020, ERS will continue to leverage the investments in technology and data science techniques to deliver competitive yet profitable rates to market, whilst continuing to target areas where other insurers are less willing to compete.

Other matters

Capital

For the 2019 year of account, the largest participant on Syndicate 218 was ERS Corporate Member Limited ("ERS CML") with a participation of 67.6%, excluding the 5.83% of capacity that it leased to Securis LCM Limited. 2019 is the final year of tenancy for Securis LCM Limited. The remaining capacity is owned by non-aligned names.

	Year of Account					
£'000	2020	2019	2018	2017	2016	2015
Syndicate Capacity	480,000	479,575	479,598	478,865	359,462	349,828
ERS CML Participation	373,722	324,203	323,892	292,860	219,361	213,269
ERS CML Participation	77.9%	67.6%	67.5%	61.2%	61.0%	61.0%

Each member is required to provide capital sufficient to meet its Economic Capital Assessment ("ECA"). Lloyd's rules require each member to hold sufficient capital across the member's interests at Lloyd's in aggregate, rather than at a syndicate level. A member's capital can be held through a combination of three available options. First, to be held in trust by Lloyd's, called Funds at Lloyd's ("FAL"). Second, to be held within and managed as syndicate funds, called Funds in Syndicate ("FIS"). Third, as a member's share of the members' balances on each syndicate in which it participates. As a result, because the capital requirement applies at an overall member level, the capital requirement in respect of Syndicate 218 is not disclosed in these financial statements.

Syndicate capital is determined through the submission and agreement by Lloyd's of a Solvency Capital Requirement ("SCR") on an ultimate basis, which is subject to an uplift determined by the Franchise Board to calibrate the capital required by Lloyd's. ERS SML uses its own internal capital model to measure the Syndicate's SCR, based on a rigorous process of risk identification and quantification assessed at a 1 in 200-year loss event which draws upon the skills of the ERS SML organisation and is reflected in ERS SML's Own Risk and Solvency Assessment ("ORSA"). The model is based on regulatory requirements and has been approved by Lloyd's.

Lloyd's unique capital structure provides excellent financial security to policyholders.

Investment report

Investments performed strongly. Investment returns of £13.0m, equivalent to a 3.4% rate of return, were reported for the financial year 2019. Markets rebounded substantially in the year following sharp falls on world markets and extreme levels of investor pessimism in late 2018, which caused investment losses of £1.5m for the 2018 financial year, equivalent to a minus 0.3% rate of return.

The strong investment performance in 2019 compared to a weak 2018 was largely due to the following developments in the market:

- the first four months of 2019 brought strong returns as central banks signalled that rather than raise interest rates they would provide yet more stimuli to try to keep the economic expansion intact;
- the fourth quarter saw two significant political risks avoided. Firstly, the US tariffs on China were scheduled to increase on 15 December but a trade deal avoided that outcome and provided a significant relief for equity markets; and secondly the general elections in December meant that the UK could pass a European Union withdrawal bill, activating a transition period during which little will change until the end of 2020. The combination of these election implications helped lift UK stocks and sterling over the quarter; and
- ERS employed a hedging strategy on part of the portfolio to manage the anticipated higher market volatility from Brexit and political uncertainty. The hedge was used on two occasions, first between 7 March 2019 to 26 April 2019 and then from 18 October 2019 to 3 January 2020.

Investments increased to £275.0m as at 31 December 2019 from £238.2m in 2018 excluding the collateralised assets of £122.0m deposited by TPRe. This growth in investment assets was driven by in-year reinvestments of £25.2m which included settlement of £15.2m in relation to the 2016 year of account losses. Furthermore, there were total positive gains in the year of £11.6m.

Year of account forecasts
For the purposes of preparing the year of account forecasts to ultimate, Syndicate 218 has adopted the internal actuaries' best estimate outcomes as at 31 December 2019, which include implicit estimates of claims settled by Periodical Payment Orders ("PPO"). The directors of ERS SML have agreed an aggregate risk margin load of 5% on net earned claims reserves, which is consistent with previous years.

As a percentage of underwriting capacity, the 2017 year of account closed with a profit of 5.9% showing an improvement over the midpoint forecast at the end of 2018 of 3.2%.

As a percentage of underwriting capacity, the midpoint forecast to ultimate for the 2018 year of account is a loss of 1.5% with a range of best estimate profit of 3.5% and a worst estimate loss of 6.5%.

2020 Outlook
The focus for the year will remain on business differentiation through enhancing its specialisms, partnering with strategically aligned broker partners, improving customer retention and optimising pricing sophistication that builds on the enhanced data from the new IHP technology.

The financial gains and operational efficiencies achieved from the successful implementation of new distribution and pricing initiatives in prior years are expected to continue to materialise in 2020. These initiatives will underpin the full roll out of new IHP technology, as ERS leverages the data captured to broaden our underwriting footprint in areas of the market where competition is lower and margins higher, to achieve both growth in gross premium income and improved loss ratios.

ERS remains confident in the underlying performance of its business to deliver increasing and improving profits. This confidence stems from its continued focus on underwriting and pricing discipline, its investments in new technology to support distribution and cost efficiency, and its ability to leverage underwriting, pricing and data analytics, claims intervention and fraud prevention to capitalise on long-term profitable growth opportunities.

Principal Risks and Uncertainties

Risk management
Effective risk management supports the achievement of ERS SML's strategic objectives through the effective allocation of resources, understanding the risk and control environment, and the early identification of emerging risks. The Risk Management Function ("RMF") coordinates ERS SML's risk management processes and supports the Board and the Audit, Risk and Compliance Committee ("ARCC") in their responsibilities for risk and capital management.

ERS SML's risk management strategy puts structure around the risks to which Syndicate 218 is exposed and defines the framework to manage those risks in meeting the strategic objectives. The risk management framework facilitates the effective identification, measurement, mitigation and management of key risks. The risk management framework operates in conjunction with the internal economic capital model to ensure the effective allocation of risk-based capital.

Risk management governance
The Board retains ultimate responsibility for the governance and assurance oversight of Syndicate 218.

The ARCC supports the Board by overseeing the integration and effectiveness of the risk management and internal control framework in supporting ERS SML's strategic objectives, business plan targets and enabling the identification, assessment and monitoring of key risks in line with risk appetites. The ARCC monitors the maintenance of adequate capital for the risks associated with Syndicate 218's business activities.

The RMF forms an integral part of the risk management framework and coordinates ERS SML's risk management processes and activities. The executive Risk Management Committee ("RMC") provides oversight of the RMF activities.

Solvency II
ERS SML has made compliance with Solvency II a key priority since the regulations came into force.

ERS SML's internal model is at the core of the risk management framework. The internal model complies with the tests and standards of Solvency II and Lloyd's guidelines. The internal model has been defined as an integrated framework to support the business by managing risk and capital. The RMF has a broad scope including capital modelling, risk identification, risk measurement, risk mitigation, risk assessment and risk monitoring, and is used in the day-to-day operations of Syndicate 218.

Risk management culture
ERS SML maintains a strong risk management culture, which, supported by the RMF, protects and advances the interests of both stakeholders and policyholders.

Risk appetite and tolerance
Risk appetite is the level of risk that the Board are willing to tolerate in pursuit of ERS SML's objectives.

It is managed through:

- board-approved risk appetite statements and tolerances;
- the capital adequacy and other objectives contained in the business plan;
- regular systems and controls reviews;
- policies relating to the key risk areas; and
- on-going monitoring of risk metrics and measures against risk appetite statements and tolerances.

The risk appetite and tolerance is set giving consideration to the ERS SML's risk capacity, prevailing regulatory and legislative requirements, risks associated with target markets, and the fair treatment and protection of customer and stakeholder interests.

The risk metrics and measures of the business are monitored against the risk appetite and tolerance on a monthly basis and reported to the RMC monthly, and to the ARCC and Board quarterly.

Risk and control framework
The risk management framework reflects the three lines of defence approach, summarised as follows:

- Line 1: Business units operating within a framework of internal controls underpinned by policies, procedures and senior management oversight. They have direct responsibility for risk management and controls;
- Line 2: Risk Management, Conduct Risk and Compliance functions, supported by the RMC, ensure the effective operation of the RMF and that Syndicate 218 operates within its legal and regulatory boundaries. Employees in the second line coordinate, facilitate and oversee the effectiveness and integrity of the RMF. As a key input to decision making, the RMF focuses on assuring the Board where the risk profile is in line with expectations, escalating all material risk and capital issues to the Board, and providing input to, challenge and oversight of first line decision making where appropriate; and
- Line 3: Internal and External Audit providing independent assurance to the Board via ARCC as to the effectiveness of the internal control environment. Employees in the third line provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the framework.

Capital allocation
The Internal Model ("IM") is used to assess the risk and calculate the appropriate level of risk-based capital allocated to risks to which Syndicate 218 is exposed.

The assessment of risk-based capital enables ERS SML to make decisions that involve quantitative risk return trade- offs. The allocation of risk-based capital helps to ensure that the level of risk taken is commensurate with the required returns and is within the approved risk appetites and tolerances.

Key risks

Risks that could affect the ERS SML's ability to meet its strategic objectives are identified on a continuous basis through the monthly risk appetite monitoring of existing and emerging risks.

The main risks are regularly reported and discussed at the RMC and the ARCC and through the yearly ORSA.

A summary of the main risk categories and risk mitigation techniques is set out below:

Strategic risk

ERS SML defines strategic risk as the current and prospective impact on earnings and/or capital arising from strategic business decisions, implementation of decisions and responsiveness to external change.

ERS SML mitigates strategic risk in the following ways:

- strategic options are considered in light of ongoing monitoring of macro-economic factors impacting the target market;
- strategic options are considered in light of the impact on return volatility and capital requirements; and
- capital levels are planned and monitored on an ongoing basis, with reference to regulatory and economic requirements.

Insurance risk

ERS SML defines insurance risk as the risk of fluctuations in the frequency, severity and timing of insured events and claims settlements relative to expectation. Syndicate 218's exposure to insurance risk arises from underwriting and pricing, concentration of exposure and reserving.

While Syndicate 218 is exposed to concentration of exposures, the geographical concentration of motor risks tends to be not very material.

ERS SML mitigates insurance risk in the following ways:

- underwriting risk appetite and tolerance is defined through the business plan;
- historical pricing and claims experience is analysed;
- clear tolerance limits are set for concentration risk and monitored on an ongoing basis;
- performance is monitored and reviewed on an ongoing basis;
- both an internal and external actuarial review of the claims provisions is undertaken, independent of the underwriting teams;
- reserve adequacy and performance is monitored on an ongoing basis;
- the Statement of Actuarial Opinion ("SAO") on claims reserve adequacy, as required by Lloyd's, is provided by an independent external actuarial firm; and
- purchase of reinsurance above a limit (£2.5m for business written in 2019) with unlimited sideways cover, as well as reinsurance to protect £122.0m of reserves across the 2010 to 2019 underwriting and accident years, with a stop loss to protect the 2019 and 2020 underwriting years in the 2020 accident year.

Credit and counterparty risks

ERS SML defines credit and counterparty risk as the risk of default by debtors and transactional counterparties, as well as the loss in value of investment assets due to the deterioration in credit quality. Syndicate 218's exposure to credit risk arises from premium counterparty credit and other receivables, reinsurance counterparty credit and other recoveries, plus investment counterparty default.

ERS SML mitigates credit and counterparty risks in the following ways:

- solvency strength of brokers, agents and other intermediaries are assessed regularly;
- credit ratings of reinsurers are reviewed and assessed prior to placing business with them;
- clear tolerance limits are set with maximum exposure limits for each reinsurance group with the limits set by reinsurer rating; and
- exposure limits for approved counterparties are reviewed regularly in respect of financial institution deposits and financial investments.

Market risk
ERS SML defines market risk as the risk of variation in the value of financial institution deposits and financial investments, relative to the variation in the value of liabilities due to market movements.

ERS SML mitigates market risk in the following ways:

- investment assets are actively managed by externally appointed investment managers subject to approved guidelines, mandates and performance benchmarks;
- diversification of the investment portfolio across asset classes is achieved by limiting concentration limits for each asset class and its underlying counterparty ratings;
- interest rate risk is managed by setting the duration of the investment portfolio relative to the duration of the liabilities;
- price risk is managed by limiting the value at risk of the portfolio at specified confidence intervals; and
- exchange rate risk is largely not applicable as risks underwritten are predominantly UK Pound sterling denominated.

Liquidity risk
ERS SML defines liquidity risk as the risk of having insufficient liquid assets to meet liabilities falling due to policyholders and creditors in a timely manner.

ERS SML mitigates liquidity risk in the following ways:

- cash flow is monitored daily and liquidity projections are performed on a monthly basis;
- a minimum level of liquid, short-term money market securities are held to meet Syndicate 218's ongoing liquidity requirements; and
- stress testing of liquidity needs relative to major risk events.

Operational risk
ERS SML defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk. Exposure to operational risk arises from internal fraud, external fraud, employment practices, improper business practices, technology and infrastructure failures, cyber security threats, business and transaction processing errors.

ERS SML mitigates operational risk in the following ways:

- key processes are monitored actively on an ongoing basis;
- scenario-based reviews are used to identify and quantify potential exposures and identify areas requiring management;
- effective segregation of duties, access controls, authorisation and reconciliation procedures are in place;
- security controls and techniques are implemented and constantly improved to manage security risks to physical property, information, computer systems, or other assets;
- business continuity plans and disaster recovery plans are tested periodically to ensure that the business is able to respond effectively to incidents and minimises the impact of any major disruption; and
- risk events are analysed and any corrective action taken.

Conduct risk
ERS SML defines conduct risk as the risk that Syndicate 218 or our agents fail to pay due regard to the interests of customers which leads to an unfair outcome. Exposure to conduct risk arises from employee conduct, product design and performance, broker and other agent conduct and complaints management.

ERS SML mitigates conduct risk in the following ways:

- a strong culture is maintained around the values of the business and employee conduct is recognised through the CEO Awards programme;
- key processes and controls are monitored actively to ensure appropriate consideration is given to the customer's perspective;
- products are reviewed on a regular basis with an emphasis on conduct risk, including careful consideration of customer risk, product complexity, sales and post-sales service risks;
- a complaints management process which is aligned with the Lloyd's Code to provide customers with access to Lloyd's two stage complaints process; and
- conduct performance is monitored and reviewed on an ongoing basis.

Directors of the Managing Agent, their participation on the Syndicate and interests in other Group Companies

The directors of ERS SML who were in office during the year and up to the date of signing the financial statements were:

Patrick H O'Sullivan (Chairman)
Nicholas J Addyman*
Amanda J Blanc (appointed 2 January 2020)
Robert P Gullett*
Martin Hall*
Robert H Johnson (appointed 17 December 2019)
Ian D Parker
Nicholas C T Pawson*#
Peter N Smith (appointed 31 July 2019)
Ignace L G van Waesberghe
Ryan R Warren*
Christopher E Watson
Donna S Willis*

* All directors indicated also have investments in ERS SML's ultimate UK holding company. No investment is greater than 8% of the entire issued Share Capital and therefore none are deemed material.

Nicholas C T Pawson is a Name on Syndicate 218. Nicholas C T Pawson's participation on Syndicate 218 is disclosed at note 27.

Disclosure of information to the auditors
The directors of ERS SML who held office at the date of approval of the Report of the Managing Agent confirm that, so far as each of them is aware, there is no relevant audit information of which the syndicate's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

Syndicate auditors
The syndicate's auditors, PricewaterhouseCoopers LLP, are deemed reappointed under the provisions of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Annual general meeting ("AGM")
Notice is hereby given that the managing agent does not propose holding a Syndicate AGM this year unless objections to this proposal or the intention to reappoint the auditors are received from Syndicate members by 30 April 2020.

By order of the Board:

Ian D Parker
Director

4 March 2020

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the managing agent's report and the annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare annual accounts for each financial year. Under that law, the managing agent is required to prepare the syndicate accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the managing agent must not approve the annual accounts unless it is satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 syndicate annual accounts;
- prepare the syndicate annual accounts on a going concern basis unless it is inappropriate to presume that the syndicate will continue in business.

The managing agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and to 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 the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the business website. Legislation in the UK governing the preparation and dissemination of syndicate annual accounts may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Syndicate 218

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 218's syndicate annual accounts (the "syndicate annual accounts"):

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

We have audited the syndicate annual accounts included within the Report and Accounts 2019 (the "Annual Report"), which comprise: the Balance Sheet – Assets and the Balance Sheet – Liabilities as at 31 December 2019, the Statement of Comprehensive Income – Technical Account for General Business, the Statement of Comprehensive Income – Non-Technical Account, the Statement of Changes in Members' Balances and the Cash Flow Statement for the year then ended, and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Report of the Managing Agent

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

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 15, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

4 March 2020

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Statement of comprehensive income – technical account for general business

	Note	2019 £000	2018 £000
Earned premiums, net of reinsurance			
Gross premiums written	6	**359,961**	329,398
Outward reinsurance premiums		**(25,683)**	(23,868)
Net premiums written		**334,278**	305,530
Change in the provision for unearned premiums			
Gross amount	20	**(15,329)**	15,354
Reinsurers' share	20	**939**	1,799
Change in the net provision for unearned premiums		**(14,390)**	17,153
Earned premiums, net of reinsurance		**319,888**	322,683
Allocated investment return transferred from non-technical account	11	**13,033**	(1,450)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	20	**(249,626)**	(276,040)
Reinsurers' share	20	**12,837**	30,308
Net claims paid		**(236,789)**	(245,732)
Change in the provision for claims			
Gross amount	20	**13,306**	161,742
Reinsurers' share	20	**12,992**	(114,522)
Change in the net provision for claims		**26,298**	47,220
Claims incurred, net of reinsurance		**(210,491)**	(198,511)
Changes in other technical provisions, net of reinsurance	20	**(9,749)**	(6,974)
Net operating expenses	8	**(98,740)**	(104,710)
Balance on the technical account for general business		**13,941**	11,037

All amounts relate to continuing operations.

The notes on pages 26 to 48 form an integral part of these annual accounts.

Statement of comprehensive income – non-technical account

	Note	2019 £000	2018 £000
Balance on the technical account for general business		**13,941**	11,037
Investment return			
Investment income	11	**6,494**	6,615
Unrealised gains on investments	11	**11,605**	2,946
Investment expenses and charges	11	**(732)**	(830)
Unrealised losses on investments	11	**(4,334)**	(10,181)
Allocated investment return transferred to technical account for general business	11	**(13,033)**	1,450
		–	–
Other income	12	**–**	85
Other charges, including value adjustments	12	**(49)**	–
		(49)	85
Profit for the financial year		**13,892**	11,122

There are no differences between the result for the financial year stated above and their historical cost equivalents in the statement of comprehensive income for the financial year.

The notes on pages 26 to 48 form an integral part of these annual accounts.

Balance sheet – assets

	Note	2019 £000	2018 £000
Investments			
Other financial investments	5(i)(p), 13	**274,996**	238,164
Reinsurers' share of technical provisions			
Provision for unearned premiums	20	**12,543**	11,604
Claims outstanding	5(i), 19, 20	**315,233**	302,241
Other technical provisions	20	**4,881**	14,630
		332,657	328,475
Debtors			
Debtors arising out of direct insurance operations	5(i), 14	**55,400**	48,094
Debtors arising out of reinsurance operations	5(i)	**2,512**	4,250
Other debtors	15	**38,629**	40,253
		96,541	92,597
Other assets			
Cash at bank and in hand	5(i)	**42,682**	30,991
Overseas deposits	5(i)(p), 16	**1,358**	1,335
		44,040	32,326
Prepayments and accrued income			
Accrued interest and rent		**1,397**	1,395
Deferred acquisition costs	17	**37,157**	35,009
Other prepayments and accrued income	18	**7,026**	7,832
		45,580	44,236
Total assets	5(k)	**793,814**	735,798

The notes on pages 26 to 48 form an integral part of these annual accounts.

Balance sheet – liabilities

	Note	**2019 £000**	2018 £000
Members' balances		**5,942**	(33,082)
Technical provisions			
Provision for unearned premiums	20	**175,572**	160,243
Claims outstanding	5(e)(o), 19, 20	**577,773**	591,079
		753,345	751,322
Creditors			
Creditors arising out of direct insurance operations	5(o), 21	**838**	2,221
Creditors arising out of reinsurance operations	5(o)	**3,941**	38
Other creditors including taxation and social security	5(o), 22	**23,423**	14,592
		28,202	16,851
Accruals and deferred income	5(o)	**6,325**	707
Total liabilities	5(k)	**793,814**	735,798

The notes on pages 26 to 48 form an integral part of these annual accounts.

The Syndicate annual accounts on pages 20 to 25 were approved by the Board on 3 March 2020 and signed on behalf of the Syndicate's managing agent by:

Ryan Warren
Finance Director

4 March 2020

Statement of changes in members' balances

	2019 £000	2018 £000
Members' balances brought forward at the beginning of the year	**(33,082)**	(60,681)
Profit for the financial year	**13,892**	11,122
Collection of the result from members' personal reserve funds:		
2016 year of account	**25,862**	–
2015 year of account	**–**	17,217
	6,672	(32,342)
Members' agents fees paid in year	**(730)**	(740)
Members' balances carried forward at the end of the year	**5,942**	(33,082)

Members participate in syndicates by reference to years of account and their ultimate result. Assets and liabilities are assessed with reference to policies incepting in that year of account.

The notes on pages 26 to 48 form an integral part of these annual accounts.

Cash flow statement

	Note	2019 £000	2018 £000
Net cash inflow/(outflow) from operating activities	23	**10,359**	(32,891)
Cash flow from investing activities			
Purchase of equity and debt instruments		**(114,702)**	(48,307)
Sale of equity and debt instruments		**86,237**	56,749
Investment income received net of expenses paid		**5,888**	2,469
Other	24	**(1,223)**	–
Net cash (used)/generated in investing activities		**(23,800)**	10,911
Cash flow from financing activities			
Transfer from members in respect of underwriting participations		**25,862**	17,217
Members' agents fees		**(730)**	(740)
Net cash generated in financing activities		**25,132**	16,477
Net increase/(decrease) in cash at bank and in hand		**11,691**	(5,503)
Cash and cash equivalents at the beginning of the year		**30,991**	36,494
Cash and cash equivalents at the end of the year		**42,682**	30,991
Cash and cash equivalents consist of:			
Cash at bank and in hand		**42,682**	30,991
Cash and cash equivalents		**42,682**	30,991

The notes on pages 26 to 48 form an integral part of these annual accounts.

Notes to the accounts

1. General information

ERS Syndicate Management Limited ("ERS SML" or "the Managing Agent") is the managing agent of Syndicate 218. The principal activity of the syndicate is to underwrite a broad range of specialist motor insurance business at Lloyd's and is regarded as a specialist provider of motor solutions in a number of niche areas.

2. Statement of compliance

These annual accounts have been prepared in accordance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") where applicable.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these annual accounts are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation and presentation

These annual accounts have been prepared on a going concern basis and have been prepared in UK pounds sterling, which is the functional currency of the syndicate.

Basis of accounting

(i) Gross premiums written

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

(ii) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of gross and reinsurers' share of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earning patterns or time apportionment as appropriate.

(iii) Reinsurance premium ceded

Outwards reinsurance premiums earned are accounted for either over the coverage period, or in line with the risk profile to which the inward business being protected relates.

(iv) Investment return

Investment return comprises interest, realised and unrealised gains and losses on assets held at fair value through profit or loss.

Fair value realised gains and losses are calculated as the difference between net sales proceeds and fair value at acquisition.

Fair value unrealised gains and losses are calculated as the difference between the current fair value at the balance sheet date and the fair value at acquisition or at previous remeasurement date, adjusted for by excluding previously recognised unrealised gains and losses of those financial assets disposed of in the accounting period.

The returns on pooled investments arising in each calendar year are apportioned to years of account open during the calendar year in proportion to average funds available for investment on each year of account.

Investment return is initially recorded in the statement of comprehensive income – non technical account. A transfer is made from the statement of comprehensive income non-technical account to the statement of comprehensive income – technical account for general business. Investment return has been wholly allocated to the technical account as all investments relate to underwriting activities.

3. Summary of significant accounting policies (continued)

Basis of accounting (continued)

(v) Operating expenses

Where expenses are incurred by or on behalf of the managing agent for the administration of the managed syndicate, these expenses are apportioned using various methods depending on the type of expense. Expenses that are incurred jointly are apportioned between ERS SML and the syndicate on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

The managing agent regularly reviews the basis of allocation of such expenses to ensure they remain appropriate and equitable to the syndicate and each year of account.

(vi) Taxation

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

No provision has been made for any United States Federal income tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'Members' balances'. No provision has been made for any overseas tax payable by members on underwriting results.

(vii) Foreign currency

Items included in the annual accounts are measured using the currency of the primary economic environment in which the syndicate operates.

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income non-technical account for the period.

(viii) Financial instruments

The managing agent has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial instruments are recognised in the balance sheet at such time as the syndicate becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the syndicate's obligations specified in the contract expire, are discharged or cancelled.

Purchases and sales of financial assets are recognised on the trade date, which is the date the syndicate commits to purchase or sell the assets.

Financial assets

The syndicate has classified these assets into the following categories: financial assets at fair value through profit or loss; and loans and receivables.

Financial investments

Financial investment assets are designated at fair value through profit or loss on initial recognition where it is the syndicate's strategy to manage those financial investments on a fair value basis. Internal reporting and performance measurement of these assets are also on a fair value basis. Note 13 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss.

Investments carried at fair value through profit or loss are initially recognised at fair value with any associated transactions costs being expensed through the statement of comprehensive income – non-technical account.

If the market for an investment is not active, the valuation is based upon the net asset values of underlying holdings, which are independently sourced. The fair value of listed equity and debt securities is determined by reference to their quoted bid price at the balance sheet date.

3. Summary of significant accounting policies (continued)

Basis of accounting (continued)

Fair values for unlisted debt securities are estimated at the present value of their future cash flows, discounted at the market rate of interest at the reporting date.

Derivative financial instruments

Derivative financial instruments can be used to hedge the syndicate's exposure to foreign exchange risk and the interest rate risk arising from investing activities. The investment managers use futures and option derivatives for investing activities. Derivative financial instruments are measured on initial recognition, and subsequently, at fair value. The gain or loss on remeasurement to fair value is recognised in the statement of comprehensive income – non-technical account.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

Loans and receivables

Loans and receivables are recognised at amortised cost, being the fair value of consideration paid plus incremental direct transaction costs less any provision for impairments.

(ix) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

(x) Deferred acquisition Costs

The costs of acquiring new business, which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods, are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues. All other costs are expensed when they are incurred.

In respect of insurance contracts, acquisition costs comprise direct and indirect costs incurred in writing new contracts. Deferred acquisition costs are amortised over the life of the policy in line with the recognition of earned premiums.

All deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged through the profit and loss account.

(xi) Claims provision and related recoveries

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

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

These methods generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent year, where a high degree of volatility arises from projections, estimates may be based in part on output from premium rating and other pricing models of business accepted, together with assessments of underwriting conditions.

The reinsurers' share of provision for claims is based on the amount 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 rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

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

3. Summary of significant accounting policies (continued)

Basis of accounting (continued)

The syndicate's management considers that the provision for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to it. However, the ultimate liability will vary as a result of subsequent information and future 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.

(xii) Discounted claims provision

On periodic payment orders ("PPOs"), due to the long delay between the inception date of the policy and the final settlement of the claim for PPOs, the outstanding claims provisions for PPOs are discounted to take account of the expected investment income receivable on the assets held to cover the provisions between inception and settlement of PPOs.

(xiii) Unexpired risks provision

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

The provision for unexpired risks is calculated by reference to classes of business that are managed together. No account is taken of the relevant investment return arising from investments supporting the unexpired premiums and unexpired risk provisions.

(xiv) Pension costs

ERS Administration Services Limited ("ERS ASL") operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and are included within net operating expenses.

(xv) Profit commission

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause on all underwriting years, and is recognised on an accrual basis.

4. Judgements and key sources of estimation uncertainty

In the application of the accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

The following judgements, estimations and assumptions have had the most significant effect on amounts recognised in the financial statements.

(i) Valuation of general insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the syndicate's most critical accounting estimate. The carrying amount of the liability is disclosed in note 20. For general insurance contracts, estimates are made for the expected ultimate cost of claims notified as at the balance sheet date and the cost of claims incurred but not yet reported. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

The estimation of these claims is based on historical experience projected forward. The syndicate's estimate of claims and related claims handling costs is mainly achieved through the application of a number of commonly accepted actuarial projection methodologies based on the estimation of the following:

- paid claims development, where payments to date are extrapolated based upon observed development of earlier years;
- estimates based upon a projection of claims numbers and average burning cost;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected ultimate loss ratios.

There are several sources of uncertainty that need to be considered in the estimate of the liability that the syndicate will ultimately pay for an insurance claim, the most significant of which relates to bodily injury. Estimation of the ultimate cost of bodily injury claims is a hugely complex process and cannot be done using conventional actuarial techniques.

4. Judgements and key sources of estimation uncertainty (continued)

The cost of bodily injury claims especially for the more serious injuries often involves a legal process where compensation awards are made by the courts. The outcomes in these cases are hard to predict as case law is still evolving. The process is complicated further by the rise of PPO settlements by order of the court or requested by the claimant. These settlements have an annuity-type structure whereby these are typically paid annually over the claimant's life span.

The claims provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from all the syndicate's reinsurance arrangements, having due regard to collectability. Claims provisions are subject to regular review, both within the syndicate and externally.

The syndicate's management discusses and challenges the actuarial best estimate and selected booked claims provisions at the quarterly Reserving Committee and at the Audit, Risk and Compliance Committee ("ARCC"), whose membership includes non-executive directors with significant insurance experience and actuarial specialism. External actuaries are also engaged to calculate an independent best estimate of the ultimate cost of claims as at each 31 December and present a Statement of Actuarial Opinion ("SAO") against which the syndicate's best estimate with a 5% risk margin load is assessed.

(ii) Premium earning pattern

The syndicate recognises written premium on an earned basis, this being the portion of written premiums (including where relevant those of prior accounting periods) attributable to the risks borne by the syndicate during the accounting period. Premiums are linearly earned between the inception and expiry of each contract, or between the effective to and effective from date of any contractual term amendments. The carrying value amount of the unearned premium is disclosed in note 20.

5. Management of insurance and financial risk

The syndicate issues insurance contracts that transfer insurance risk and undertakes investment and reinsurance activities that expose the syndicate to financial and credit risk. The syndicate has in place a comprehensive risk management and control framework which aims to minimise the impact of insurance, financial and other risks on the syndicate's financial results. This is disclosed in the Report of the Managing Agent.

(a) Insurance risk management and control

The syndicate accepts insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss.

The syndicate aims to manage insurance risk:

- to achieve acceptable profits and return on equity by ensuring that insurance risks are carefully selected in accordance with risk appetite tolerances, underwritten in accordance with risk strategy and priced to reflect the underlying risk;
- to minimise reserve risk volatility through robust reserving and application of actuarial modelling approaches; and
- to mitigate insurance risk through the use of optimal reinsurance arrangements.

The syndicate is exposed to the uncertainties surrounding the timing, frequency and severity of claims under these contracts.

The syndicate manages these risks through its underwriting strategy, reinsurance arrangements, proactive claims handling and the claims reserving process.

(a)(i) Underwriting strategy

The syndicate is a specialist insurer that only writes motor business, with a small legacy underwriting exposure to household property and personal accident and health business. The syndicate reduces its concentration risk by writing business in a number of different motor classes including private car, bespoke, agriculture, motorcycle, motor fleet, commercial motor and motor breakdown. The syndicate's underwriting strategy is to write for profit rather than volume.

The syndicate's underwriting strategy is set out in the annual business plan that sets out the classes of business in which business is to be written. The objective of the underwriting strategy is to ensure that the underwritten risks are diversified in terms of type and amount of risk, industry/demographic profiles and geography, and contain only risks which meet the approved underwriting criteria as acceptable. The underwriting strategy is focused on a sophisticated data driven approach to pricing and underwriting. Adherence to the business plan and the pricing of products is reviewed on a regular basis.

5. Management of insurance and financial risk (continued)

(a) Insurance risk management and control (continued)

All policies are predominantly annual contracts, giving the opportunity to reprice based on latest account experience and external conditions as well as individual risk performance. Unlike many classes, motor pricing is very closely linked to the individual risk.

Experience has shown that the underwriting of a large number of uncorrelated individual risks reduces the variability of the expected outcome. The syndicate's underwriting strategy seeks to accept a large population of individual risks within each business class to limit the variability of expected outcomes.

(a)(ii) Reinsurance arrangements

Motor business is exposed to the risk of large bodily injury claims, where the claim amount can be significant due to the cost of care required for the claimant. The syndicate reinsures a portion of the risks it underwrites in order to control its exposure to claims and to protect capital resources.

The syndicate purchases motor excess of loss reinsurance contracts to reduce the impact of individual large claims and the accumulation of claims that arise from the same event. The cover purchased limits the claims arising from any one event to £2.5 million in respect of policies incepted during 2014 to 2019. Previously the syndicate had purchased excess of loss cover on an accident year basis, where the limit was £3.5 million for 2012 and 2013, reducing to £2.0 million for 2011 and £1.0 million for 2010. All purchases of reinsurance are approved, in advance, by the ERS SML board of directors.

The 2018 TPRe reinsurance coverage was commuted and replaced with a new contract bound effective on 30 June 2019. The new reinsurance contract continues to protect £122.0m of reserves across the 2010 to 2019 underwriting and accident years, with a stop loss to protect the 2019 and 2020 underwriting years in the 2020 accident year.

Although the syndicate has reinsurance arrangements in place to reduce its gross insurance risk, these arrangements do not relieve it of its ultimate liability to policyholders and as such, the syndicate is exposed to credit risk to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The syndicate's exposure to this credit risk is discussed in note 5(i) on financial risk management and control.

(a)(iii) Claims management

Liabilities arising from motor insurance contracts cover both property and liability indemnities. The overriding objective of claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids, such as weather validation and fraud databases, and the use of claims specialists.

(a)(iv) Claims reserving

Reserving risk is the risk that insufficient funds have been set aside to settle claims as these fall due. To ensure that its claims reserving process is adequate the managing agent undertakes quarterly internal actuarial reviews and commissions external actuarial reviews every year end. These reviews estimate the future claims liabilities in order to consider the adequacy of the provisions.

(b) Sources of uncertainty in the estimation of future claim payments

Claims on motor insurance contracts are payable on a loss-occurrence basis. The syndicate is liable for all insured events that occur during the term of the contract, even if the loss is reported after the end of the contract term. Policyholders will tend to report a claim relatively soon after a road traffic accident, but it may take longer to discover claims from third parties. An element of the claims provision therefore relates to IBNR. The compensation paid on these contracts is the monetary awards granted for property damage and bodily injury suffered by third parties involved in road traffic accidents with our policyholders, as well as any property damage suffered by our policyholders. Bodily injury awards are typically settled over a longer period of time. Such bodily injury awards cover the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident. They are settled either as a lump-sum payment, which is calculated as the present value of the lost earnings and rehabilitation expenses of the claimant, or as a structured settlement, typically under a PPO awarded by the courts. A PPO settlement will include a lump-sum paid on settlement plus a recurring annual payment, indexed in line with inflation, to cover the costs of care until the end of the claimant's life.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of any expected subrogation and/or salvage value and other recoveries. All reasonable steps are taken to ensure that appropriate information regarding claims exposures is available. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting

5. Management of insurance and financial risk (continued)

(b) Sources of uncertainty in the estimation of future claim payments (continued)

period. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, where information about the claim event is available. In estimating the liability of the cost of reported claims not yet paid, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods is considered. Large claims are assessed on a case-by- case basis and projected separately in order to allow for the possible distortive effect of the development and incidence on the rest of the portfolio. Particular consideration is given to the operational and systems changes that occur within the business, which would distort the information of how claims have developed and settled across different periods of time.

Where possible, multiple statistical methods are used to estimate the required level of claims provisions. This provides a greater understanding of the trends inherent in the claims experience being projected. These claims projections derived by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation method is selected taking into account the characteristics of the risk and the extent of the development each year. Being able to explain the differences in the methods develops and evidences the understanding of the underlying claims estimation processes.

The calculation of claims provisions is performed internally on a best estimate basis, meaning that the provisions are intended to represent the probability-weighted average of all possible payment outcomes, with a 5% risk margin load on top of the best estimate. Independent calculations are performed by an external actuary, who also provides the Lloyd's SAO. The difference between the two valuations of net claims reserves for business earned at 31 December 2019 is 2.9% (31 December 2018: 3.4%) with the internal estimate being the higher one in both cases.

The following key areas of uncertainties have been identified:

- Propensities for Periodic Payment Orders (PPOs): The propensity for PPO payments will vary based upon the associated Ogden discount rate. Claimants are likely to favour lump sum settlements in the presence of negative discount rates.
- Further inflation in claim severities and frequencies: External factors could continue to increase claim severities, such as the depreciation of the pound affecting the prices of imported parts. Claimant behaviour could also increase claim frequencies.
- Brexit: There remains a risk to the supply chain for car manufacturers and car parts suppliers, which may further exacerbate the claims inflation.

(c) Process used to decide on assumptions

In principle, the methodology is consistent with the approach applied in previous reviews.

Gross of reinsurance, claims projections are undertaken by class of business for property damage and personal injury with losses capped at £30k. For personal injury losses greater than £30k, these projections are undertaken for all classes in aggregate. The aim is the classification of claims into homogeneous groups based on the development and settlement characteristics.

Periodic payment order (PPO) claims are also analysed separately. Projections of PPO claims are performed on an underwriting year basis. Consistent with previous reviews, ERS has assumed a 0% propensity for reported but not settled large losses to become a PPO in future which is considered appropriate in an environment where lump sum awards are calculated at an Ogden rate of minus 0.25%. For claims that have been settled, the costs for each claim are projected based on the claims team medical expert life expectancy assessment. Future projected payments are adjusted for wage inflation and investment return. The wage inflation assumption of 3% is based on publicly available information, such as the Annual Survey of Hours and Earning by the Office for National Statistics, and the investment assumption of 3% is based on the current yields to maturity of assets held in the investment portfolio.

The syndicate uses several statistical methods to incorporate the assumptions made in order to estimate the ultimate cost of claims. The three methods most commonly used are the Chain-ladder, Bornhuetter-Ferguson and Cape Cod methods.

Chain-ladder methods may be applied to paid and incurred claims. The basic technique involves analysis of historical claims development factors and the selection of estimate development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident or underwriting year that is not fully developed to produce an estimated ultimate claims cost. Chain-ladder techniques are most appropriate for those accident years and claim groups that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class or group of claims.

5. Management of insurance and financial risk (continued)

(c) Process used to decide on assumptions (continued)

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on the claims experience. The former is based on a measure of exposure, such as vehicle count, and the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used for more recent accident periods where the development of claims is less mature.

The Cape Cod method is very similar to the Bornhuetter-Ferguson method. It is a more dynamic approach to estimating the initial a priori loss estimate by having the ability to adjust for trends seen in historical experience. This technique has been used for more recent accident periods where the development of claims is less mature.

The syndicate has not applied these methods mechanically. The final selections are not necessarily the result of a single method, and in some cases are selected using a weighted average of different methods.

(d) Development of claims provision

Claims development information is disclosed in order to illustrate the uncertainty in the estimation of future claims payments inherent in the syndicate. The tables below reflect the cumulative incurred claims including IBNR and claims handling costs for each successive underwriting year at each balance sheet date. The syndicate seeks to maintain appropriate reserves in order to protect against future claims experience and development. The tables below show the development of claims over an extended period and provide a measure of the syndicate's ability to adequately estimate the ultimate level of claims.

While the information in the tables below provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss provisions. The syndicate's management believes the estimated total claims provisions are adequate at the end of the current year.

(e) Analysis of claims development – gross of reinsurance

Underwriting year	2010 & prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Estimate of ultimate gross claims costs*:											
At end of reporting year	3,780.8	208.1	153.5	143.6	131.7	133.0	160.0	147.9	113.1	132.4	
One year later	4,032.5	406.8	297.6	283.8	277.6	309.2	358.4	250.1	232.1		
Two years later	4,041.1	393.0	285.7	281.3	304.5	311.4	352.1	224.3			
Three years later	4,084.2	391.9	278.8	290.0	296.2	288.0	335.5				
Four years later	4,097.6	390.0	286.8	287.6	268.1	291.9					
Five years later	4,093.5	403.1	276.0	266.5	264.0						
Six years later	4,125.9	392.8	270.4	265.7							
Seven years later	4,113.6	386.6	270.6								
Eight years later	4,088.3	387.4									
Nine years or more later	4,101.7										
Current estimate of cumulative claims	4,101.7	387.4	270.6	265.7	264.0	291.9	335.5	224.3	232.1	132.4	6,505.6
Cumulative payments to date	4,007.6	370.2	261.7	246.0	236.9	232.3	234.6	165.7	126.6	46.2	5,927.8
Total gross provision included in the balance sheet	**94.1**	**17.2**	**8.9**	**19.7**	**27.1**	**59.6**	**100.9**	**58.6**	**105.5**	**86.2**	**577.8**

5. Management of insurance and financial risk (continued)

(f) Analysis of claims development – net of reinsurance

Underwriting year	2010 & prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Estimate of ultimate net claims costs*:											
At end of reporting year	3,417.6	194.8	150.1	135.7	126.5	125.0	140.4	110.3	83.7	90.5	
One year later	3,602.1	383.4	289.3	263.6	250.5	275.4	269.4	203.4	182.8		
Two years later	3,588.9	372.3	281.2	248.2	248.0	262.3	280.6	203.9			
Three years later	3,606.6	369.0	257.8	237.2	246.9	260.8	277.8				
Four years later	3,596.0	356.2	253.5	244.6	243.8	264.2					
Five years later	3,590.6	357.4	256.4	242.0	247.0						
Six years later	3,589.1	359.5	256.6	242.2							
Seven years later	3,585.4	360.6	257.5								
Eight years later	3,586.8	361.0									
Nine years or more later	3,588.0										
Current estimate of cumulative claims	3,588.0	361.0	257.5	242.2	247.0	264.2	277.8	203.9	182.8	90.5	5,714.9
Cumulative payments to date	3,578.4	355.5	252.8	231.7	235.7	232.2	229.2	164.2	126.5	46.1	5,452.3
Total net provision included in the balance sheet	**9.6**	**5.5**	**4.7**	**10.5**	**11.3**	**32.0**	**48.6**	**39.7**	**56.3**	**44.4**	**262.6**

* the initial estimate of gross and net provision at the end of the reporting year is on an earned basis.

The syndicate has taken advantage of the exemption in FRS 103 paragraph 6.3 to not disclose information about claims development that occurred before the beginning of the earliest period for which the managing agent presents full comparative information that complies with FRS 103.

(g) Sensitivity analysis on claim provisions

The syndicate's management makes estimates and assumptions concerning the future which have a significant impact on the determination of the ultimate liability arising from claims made under insurance contracts accepted. The sources of estimation uncertainty are discussed in more detail on page 29. If actual experience is significantly different from that which has been estimated then this will impact the profit and net assets of the syndicate.

The assumptions that have the greatest effect on the measurement of the syndicate's insurance contract provisions are the expected loss ratios. The expected loss ratio is the ratio of expected claims to premiums.

A 1% reduction/improvement in the loss ratio for the current underwriting year would result in a £1.5m (2018: £1.3m) decrease/increase to the net claims outstanding and a corresponding increase/decrease in profit and net assets of the syndicate. A 1% reduction/improvement in the loss ratios for each of the last two underwriting years would result in a £6.1m (2018: £6.8m) decrease/increase to the net claims outstanding and a corresponding increase/decrease in profit and net assets of the syndicate.

(h) Financial risk management and control

The syndicate's management sets risk appetites annually as part of the syndicate's business planning and capital setting process. The RMC meets regularly to monitor performance against risk appetite tolerances using a series of key risk indicators. Details of the principal risks and uncertainties facing the syndicate are given in the Report of the Managing Agent on page 4.

(i) Credit risk

Credit risk is the risk of counterparties failing to meet their financial obligations in full as they fall due. The primary sources of credit risk for the syndicate are:

- Brokers and intermediaries – Whereby counterparties fail to pass on premiums collected or claims paid on behalf of the syndicate.

5. Management of insurance and financial risk (continued)

(i) Credit risk (continued)

- Reinsurers – Whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate.
- Investments – Whereby issuer default results in the syndicate losing all or part of the value of a financial instrument.
- The syndicate's core business is to accept significant insurance risk while the appetite for other risks is low. This protects the syndicate's capital from erosion so that it can meet its insurance liabilities. The syndicate structures the acceptable levels of credit risk by placing limits on its exposure to singular and group counterparties, and to geographical and industry segments. Such risk limits are subject to regular review.

Brokers and intermediaries
Exposures to brokers and insurance intermediaries are managed via a stringent credit policy. The syndicate's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. The syndicate also reduces its exposure to credit risk through broker de-concentration by increasing its broker count.

Reinsurers
Reinsurance exposures are monitored regularly. The syndicate assesses the credit worthiness of all reinsurers by reviewing public rating information and from internal investigations.

During 2015, a £58.5m reinsurance premium was paid to TPRe and a corresponding reinsurance recovery of £58.5m recognised to protect claims reserves on the 2010 to 2014 underwriting and accident years. This contract was cancelled and replaced during 2017 at an incremental cost of £63.5m to protect £122.0m of claims reserves on the 2010 to 2017 underwriting and accident years. In return, TPRe placed the sum of £122m in a ring-fenced sole beneficiary trust fund which was custodied by BNY Mellon to mitigate credit risk failure.

In 2018 the TPRe coverage was commuted and replaced with a contract bound effective on 30 June 2018. The 2018 contract continued to protect £122.0m of reserves across the 2010 to 2018 underwriting and accident years with a stop loss to protect 2018 and 2019 year of accounts in the 2019 accident year and £122.0m remained in a ring-fenced sole beneficiary trust fund custodied by BNY Mellon.

In 2019 the TPRe coverage was again commuted and replaced with a new contract bound effective on 30 June 2019. The new reinsurance contract continues to protect £122.0m of reserves across the 2010 to 2019 underwriting and accident years with a stop loss to protect 2019 and 2020 year of accounts in the 2020 accident year and £122.0m remains in a ring-fenced sole beneficiary trust fund custodied by BNY Mellon.

Investments
Investments are primarily allowed only in liquid securities and with counterparties that have a credit rating equal to investment grade or better. Given the investment portfolio's high credit ratings, the syndicate does not expect any counterparty failures in meeting obligations.

The syndicate imposes guidelines on its external investment managers in relation to the constituents of the investment portfolios. These guidelines specify the acceptable asset classes, duration and credit ratings. The performance of the investment managers is regularly reviewed to confirm adherence to these guidelines.

The following table summarises the syndicate's significant credit risk for impacted assets that are not impaired:

2019	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Asset classes not subject to rating £000	Total £000
Financial investments and overseas deposits	72,783	52,989	69,348	49,867	4,655	26,712	276,354
Insurance debtors	22,678	5,701	4,745	6,210	14,444	1,622	55,400
Reinsurance debtors	–	911	1,601	–	–	–	2,512
Reinsurers' share of claims outstanding	–	106,881	208,352	–	–	–	315,233
Cash at bank and in hand	–	1,389	–	41,269	–	24	42,682
Total	95,461	167,871	284,046	97,346	19,099	28,358	692,181

5. Management of insurance and financial risk (continued)

(i) Credit risk (continued)

2018	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Asset classes not subject to rating £000	Total £000
Financial investments and overseas deposits	50,006	65,459	47,687	46,175	458	29,714	239,499
Insurance debtors	23,140	5,191	3,367	6,753	4,432	5,211	48,094
Reinsurance debtors	–	1,845	2,405	–	–	–	4,250
Reinsurers' share of claims outstanding	–	102,633	199,608	–	–	–	302,241
Cash at bank and in hand	834	547	317	28,972	–	321	30,991
Total	73,980	175,675	253,384	81,900	4,890	35,246	625,075

The syndicate has impacted assets that are past due at the balance sheet date. The tables below provide information regarding the maximum credit risk exposure to these assets, together with the extent to which they are due, past due and impaired.

Assets are classified as past due when the contractual payment is in arrears. An assessment is performed on all assets, based on the ageing maturity of these assets, which may result in an impairment charge in the statement of comprehensive income if the syndicate considers this to be appropriate.

2019	**Neither due nor impaired £000**	**Past due up to 3 months £000**	**Past due 3 to 6 months £000**	**Past due 6 months to 1 year £000**	**Past due greater than 1 year £000**	**Past due and impaired £000**	**Total £000**
Insurance debtors	**46,864**	**7,781**	**706**	**227**	**713**	**(891)**	**55,400**
Reinsurance debtors	**1,884**	**–**	**121**	**491**	**29**	**(13)**	**2,512**
Reinsurers' share of claims outstanding	**315,797**	**–**	**–**	**–**	**–**	**(564)**	**315,233**
Total	**364,545**	**7,781**	**827**	**718**	**742**	**(1,468)**	**373,145**

2018	Neither due nor impaired £000	Past due up to 3 months £000	Past due 3 to 6 months £000	Past due 6 months to 1 year £000	Past due greater than 1 year £000	Past due and impaired £000	Total £000
Insurance debtors	38,491	9,642	177	130	671	(1,017)	48,094
Reinsurance debtors	3,478	–	91	623	95	(37)	4,250
Reinsurers' share of claims outstanding	302,787	–	–	–	–	(546)	302,241
Total	344,756	9,642	268	753	766	(1,600)	354,585

5. Management of insurance and financial risk (continued)

(j) Market risk

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

The syndicate engages external investment managers to actively manage the market risk associated with financial investments. Detailed guidelines imposed on the investment managers are in place and the ERS SML Board and its investment committee regularly monitor performance and risk metrics. Financial investments represent a significant proportion of the syndicate's assets and the syndicate's management monitors various performance and risk metrics.

(k) Foreign exchange risk

The syndicate is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The syndicate deals in four currencies, UK pounds sterling (GBP), Canadian dollars (CAD), Euros (EUR) and US dollars (USD). Transactions in all other currencies are converted to UK pounds sterling on initial recognition.

Although over 97% of the insurance premiums are GBP-denominated, the syndicate has some exposure to non-GBP denominated insurance claims from its legacy run-off portfolios. The foreign exchange rate exposure is closely monitored from a liquidity and asset-liability matching standpoint.

The investment managers invest part of the GBP-denominated premium trust fund in non-GBP denominated investments which are fully hedged back to GBP using derivatives, thereby mitigating the foreign exchange risk.

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

2019	**GBP £000**	**USD £000**	**CAD £000**	**EUR £000**	**Other £000**	**Total £000**
Total assets	**791,176**	**305**	**2,221**	**112**	**–**	**793,814**
Total liabilities and members' balances	**(793,852)**	**28**	**(88)**	**98**	**–**	**(793,814)**
Total	**(2,676)**	**333**	**2,133**	**210**	**–**	**–**

2018	GBP £000	USD £000	CAD £000	EUR £000	Other £000	Total £000
Total assets	733,059	333	2,194	212	–	735,798
Total liabilities and members' balances	(735,564)	(56)	(252)	74	–	(735,798)
Total	(2,505)	277	1,942	286	–	–

(l) Price risk

Shares, other variable yield securities and units in unit trusts that are recognised on the balance sheet at their fair values are susceptible to losses due to adverse changes in prices. This is referred to as price risk and forms part of credit and market risk.

Depending on the syndicate's risk appetite, these investments are well diversified within high quality, liquid securities. The syndicate imposes guidelines on its investment managers that set out minimum credit ratings, maximum durations, diversification requirements across industry sectors, and concentration limits in any one industrial sector or counterparty.

Listed investments are recognised on the balance sheet at quoted bid price. If a current price from an active market or from a recent transaction of an identical asset is not available, then a fair valuation technique using observable and unobservable market data is used. This includes using discounted cash flow models and other valuation techniques that are commonly used by investment managers and custodians.

(m) Interest rate risk

The majority of the syndicate's investments comprise debt securities and other fixed income securities. The fair value of these securities are inversely correlated to interest rate movements. If interest rates fall, the fair value of the syndicate's securities would tend to rise and vice versa.

Fixed income assets are predominantly invested in high quality corporate, government, supranational and asset backed securities. The investments typically have relatively short durations and terms to maturity.

The fair values of the syndicate's debt and fixed income securities are stated in note 13.

5. Management of insurance and financial risk (continued)

(n) Sensitivity analysis on market risk

The table below shows the results of sensitivity testing on the syndicate's profit and net assets. The sensitivity analysis indicates the effect of changes in market risk factors on the syndicate's financial investments.

	2019 increase/(decrease) on profit and net assets £000	2018 increase/(decrease) on profit and net assets £000
Interest rate risk		
50 basis points increase in yield curve	**(2,372)**	(1,948)
50 basis points decrease in yield curve	**2,466**	1,996
Price risk		
5% increase in stock market prices	**64**	73
5% decrease in stock market prices	**(86)**	(35)

No sensitivity analysis has been presented for currency risk as the syndicate currently has minimal foreign currency risk.

(o) Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The syndicate is exposed to daily cash calls on its available cash resources, mostly for the settlement of claims. The syndicate's approach is to maintain a large proportion of liquid assets that can be converted to cash at short notice without any significant capital loss. These funds are monitored by management on a daily basis. The directors do not consider that there is a material risk of loss arising from liquidity risk.

The table below analyses the maturity of the syndicate's impacted liabilities. All liabilities are analysed in ageing maturity buckets based on contractual cash flows except for gross claims outstanding, which are analysed in ageing maturity buckets based on expected cash flows.

2019	**No stated maturity £000**	**0-1 year £000**	**1-3 years £000**	**3-5 years £000**	**> 5 years £000**	**Total £000**
Gross claims outstanding	**–**	**(182,645)**	**(162,373)**	**(68,300)**	**(164,455)**	**(577,773)**
Insurance creditors	**–**	**(838)**	**–**	**–**	**–**	**(838)**
Reinsurance creditors	**–**	**(3,941)**	**–**	**–**	**–**	**(3,941)**
Other creditors	**–**	**(23,423)**	**–**	**–**	**–**	**(23,423)**
Accruals and deferred income	**–**	**(6,325)**	**–**	**–**	**–**	**(6,325)**
Total	**–**	**(217,172)**	**(162,373)**	**(68,300)**	**(164,455)**	**(612,300)**

2018	No stated maturity £000	0-1 year £000	1-3 years £000	3-5 years £000	> 5 years £000	Total £000
Gross claims outstanding	–	(159,226)	(194,543)	(78,538)	(158,772)	(591,079)
Insurance creditors	–	(2,221)	–	–	–	(2,221)
Reinsurance creditors	–	(38)	–	–	–	(38)
Other creditors	–	(14,592)	–	–	–	(14,592)
Accruals and deferred income	–	(707)	–	–	–	(707)
Total	–	(176,784)	(194,543)	(78,538)	(158,772)	(608,637)

5. Management of insurance and financial risk (continued)

(p) Fair value hierarchy

The syndicate has classified its financial investments using the fair value hierarchy in accordance with the FRS 102 amendments to "Fair value hierarchy disclosures" issued by the Financial Reporting Council on 8 March 2016.

The fair value hierarchy classifies financial instruments into Levels 1 through 3 based on the significance of the inputs used in measuring their fair value with Level 1 being the most reliable. The classifications within the fair value hierarchy are defined as follows:

- Level 1 – Quoted price for an identical asset in an active market. This includes securities and financial investments that are priced based on unadjusted quoted prices in an active market for identical assets that can be accessed at the measurement date.
- Level 2 – Price of a recent transaction for an identical asset and valuation technique using observable market data. This includes securities and financial investments that are priced using valuation techniques based on direct or indirect observable market data, including market prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors.
- Level 3 – Valuation technique using unobservable market data. This includes securities and financial investments which are priced using valuation techniques incorporating unobservable market data.

2019	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Shares, other variable yield securities and units in unit trusts	**105,968**	**10,450**	**1,465**	**117,883**
Debt securities and other fixed income securities	**–**	**155,828**	**–**	**155,828**
Participation in investment pools	**–**	**402**	**–**	**402**
Overseas deposits	**–**	**2,241**	**–**	**2,241**
Total	**105,968**	**168,921**	**1,465**	**276,354**

2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares, other variable yield securities and units in unit trusts	113,487	5,613	257	119,357
Debt securities and other fixed income securities	–	117,537	–	117,537
Participation in investment pools	–	392	–	392
Overseas deposits	–	2,213	–	2,213
Total	113,487	125,755	257	239,499

Overseas deposits comprises of other financial investments of £883k (2018: £878k), and cash and cash equivalents of £1,358k (2018: £1,335k).

(q) Capital Management

The syndicate's objectives, policies and processes for managing capital are disclosed in the Report of the Managing Agent.

6. Segmental analysis

All premiums were concluded in the UK and their geographical destination was largely the UK.

2019	**Gross premiums written £000**	**Gross premiums earned £000**	**Gross claims incurred £000**	**Gross operating expenses £000**	**Reinsurance balance £000**	**Total £000**
Direct insurance						
Accident and health	**–**	**–**	**96**	**–**	**(23)**	**73**
Motor (third party liability)	**–**	**–**	**–**	**–**	**–**	**–**
Motor (other classes)	**348,963**	**333,106**	**(226,818)**	**(93,942)**	**(9,545)**	**2,801**
Fire and other damage to property	**(166)**	**(166)**	**12**	**135**	**(139)**	**(158)**
Other	**11,164**	**11,692**	**(9,394)**	**(4,211)**	**(24)**	**(1,937)**
	359,961	**344,632**	**(236,104)**	**(98,018)**	**(9,731)**	**779**
Reinsurance accepted	**–**	**–**	**(216)**	**(4)**	**349**	**129**
Total	**359,961**	**344,632**	**(236,320)**	**(98,022)**	**(9,382)**	**908**
Investment return						**13,033**
Technical account balance						**13,941**

2018	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance						
Accident and health	–	–	188	4	23	215
Motor (third party liability)	–	–	12	–	–	12
Motor (other classes)	317,710	331,341	(105,800)	(98,261)	(111,589)	15,691
Fire and other damage to property	98	2,113	(437)	(854)	(417)	405
Other	11,590	11,298	(10,007)	(5,119)	(62)	(3,890)
	329,398	344,752	(116,044)	(104,230)	(112,045)	12,433
Reinsurance accepted	–	–	1,746	(6)	(1,686)	54
Total	329,398	344,752	(114,298)	(104,236)	(113,731)	12,487
Investment return						(1,450)
Technical account balance						11,037

7. Movement in prior accident year's provision for claims outstanding

	2019 £000	2018 £000
Net claims release	**6,854**	13,213
Risk margin reserve release	**7,772**	9,040
Loss adjustment expense reserve release	**2,702**	4,583
Total	**17,328**	26,836

8. Net operating expenses

	2019 £000	2018 £000
Gross		
Acquisition costs – commission expenses	**45,676**	44,050
Acquisition costs – operating expenses	**23,277**	23,627
Change in deferred acquisition costs – commission expenses	**(674)**	4,683
Change in deferred acquisition costs – operating expenses	**166**	(1,969)
Administrative expenses	**22,800**	26,988
Lloyd's personal expenses and other charges	**6,777**	6,857
	98,022	104,236
Reinsurers' share		
Acquisition costs – commission expenses	**2,358**	599
Change in deferred acquisition costs – commission expenses	**(1,640)**	(125)
	718	474
Total	**98,740**	104,710

During the year, the syndicate obtained the following services from the syndicate's auditors and its associated costs are detailed below:

	2019 £000	2018 £000
Auditors' remuneration		
Fees payable to the auditors for the audit of the syndicate's annual accounts and Lloyd's returns	**601**	575
Fees payable to the auditors for other services pursuant to legislation	**263**	252
Total	**864**	827

9. Staff numbers and costs of ERS Administration Services Limited (ERS ASL)

All syndicate staff are employed by ERS ASL. The following salary related costs were charged to the syndicate:

	2019 £000	2018 £000
Wages and salaries	**24,823**	28,501
Social security costs	**2,807**	3,202
Other pension costs	**1,462**	1,327
Other	**1,189**	1,396
Total	**30,281**	34,426

The average number of staff employed by ERS ASL to work for the syndicate was:

	2019 Number	2018 Number
Underwriting	**300**	312
Claims	**221**	270
Administration	**145**	137
Total	**666**	719

10. Director and key management costs of ERS Syndicate Management Limited (ERS SML)

Directors of ERS SML

The following emoluments of ERS SML's executive directors were charged to the syndicate:

	2019 £000	2018 £000
Aggregate emoluments	**1,388**	1,094
Pension contributions	**34**	27
Total	**1,422**	1,121

Emoluments of the highest paid ERS SML's executive director charged to the syndicate were:

	2019 £000	2018 £000
Aggregate emoluments	**301**	266
Pension contributions	**–**	–
Total	**301**	266

Key management of ERS SML

Key management includes directors and senior management. The following emoluments were charged to the syndicate:

	2019 £000	2018 £000
Salaries and other short term benefits	**2,100**	2,150
Pension contributions	**72**	99
Total	**2,172**	2,249

Employer's national insurance contributions of £217k are included in the 2019 'Salaries and other short term benefits' line above (2018: £250k).

The following emoluments of the Active Underwriter were charged to the syndicate:

	2019 £000	2018 £000
Aggregate emoluments	**301**	266
Pension contributions	**–**	–
Total	**301**	266

11. Investment return

	2019 £000	2018 £000
Investment income		
Income from financial assets at fair value through profit and loss	**6,229**	5,899
Net gains on realisation of investments	**265**	716
	6,494	6,615
Unrealised gains on investments	**11,605**	2,946
Investment expenses and charges	**(732)**	(830)
Unrealised losses on investments	**(4,334)**	(10,181)
Total investment return	**13,033**	(1,450)

Investment returns are allocated from the non-technical to the technical account as the entire investment portfolio supports the general insurance business.

12. Other income and other charges, including value adjustments

	2019 £000	2018 £000
Foreign exchange (loss)/gain	**(49)**	85
Total	**(49)**	85

13. Other financial investments

All financial instruments are designated at fair value through profit or loss on initial recognition.

	2019		2018	
	Fair value £000	Cost £000	Fair value £000	Cost £000
Designated at fair value through profit or loss				
Shares, other variable yield securities and units in unit trusts	**117,883**	**87,499**	119,357	96,311
Debt securities and other fixed income securities	**155,828**	**155,453**	117,537	118,555
Participation in investment pools	**402**	**399**	392	388
Overseas deposits	**883**	**883**	878	877
Total	**274,996**	**244,234**	238,164	216,131

14. Debtors arising out of direct insurance operations

	2019 £000	2018 £000
Due within one year		
Intermediaries	**55,400**	48,094
Total	**55,400**	48,094

15. Other debtors

	2019 £000	2018 £000
Due within one year		
Related parties	**38,125**	38,889
Other	**504**	964
Due after one year		
Other	**–**	400
Total	**38,629**	40,253

16. Overseas deposits

Overseas deposits are amounts lodged as a condition of conducting underwriting business in certain countries. These comprise cash and cash equivalents.

17. Deferred acquisition costs

	2019 £000	2018 £000
Balance at 1 January	**35,009**	37,598
Change in deferred acquisition costs – gross	**508**	(2,714)
Change in deferred acquisition costs – reinsurers' share	**1,640**	125
Balance at 31 December	**37,157**	35,009

18. Other prepayments and accrued income

	2019 £000	2018 £000
Prepaid administrative expenses	**3,564**	3,756
Prepaid Lloyd's personal expenses and other charges	**3,462**	4,076
Total	**7,026**	7,832

19. Discounted claims

The claims relating to PPOs have been discounted at the following rate. The period that will elapse before claims are settled is determined using impaired mortality tables.

	Discount rates		Mean term of liabilities	
	2019	2018	2019	2018
Motor	**3.0%**	3.0%	**17.7 years**	15.9 years

The effect of discounting credits on claims provisions is shown as follows:

	2019		2018	
	Gross £000	Reinsurers' share £000	Gross £000	Reinsurers' share £000
Claims provisions before discounting	**629,871**	**361,325**	638,174	343,840
Discounting credits	**(52,098)**	**(46,092)**	(47,095)	(41,599)
Claims provisions after discounting	**577,773**	**315,233**	591,079	302,241

20. Technical provisions

	2019		2018	
	Gross technical provisions £000	**Reinsurers' share of technical provisions £000**	Gross technical provisions £000	Reinsurers' share of technical provisions £000
Provision for unearned premiums				
Balance at 1 January	**160,243**	**11,604**	175,597	9,805
Change in unearned premiums	**15,329**	**939**	(15,354)	1,799
Balance at 31 December	**175,572**	**12,543**	160,243	11,604
Claims outstanding				
Balance at 1 January	**591,079**	**302,241**	752,821	416,763
Claims paid	**(249,626)**	**(12,837)**	(276,040)	(30,308)
Claims incurred	**236,320**	**25,829**	114,298	(84,214)
Balance at 31 December	**577,773**	**315,233**	591,079	302,241
Claims outstanding				
Claims notified	**521,268**	**268,557**	552,227	270,334
Claims incurred but not reported	**56,505**	**46,676**	38,852	31,907
Balance at 31 December	**577,773**	**315,233**	591,079	302,241
Other technical provisions				
Balance at 1 January	**–**	**14,630**	–	21,604
Change in other technical provisions	**–**	**(9,749)**	–	(6,974)
Balance at 31 December	**–**	**4,881**	**–**	14,630

Other technical provisions relate to the TPRe reinsurance recoverables on cedable claims that have not exceeded the attachment point.

21. Creditors arising out of direct insurance operations

`	**2019 £000**	2018 £000
Due within one year		
Intermediaries	**838**	2,221
Total	**838**	2,221

22. Other creditors including taxation and social security

	2019 £000	2018 £000
Due within one year		
Tax authorities	**10,903**	6,620
Related parties	**12,520**	7,972
Total	**23,423**	14,592

23. Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	2019 £000	2018 £000
Profit for the financial year	**13,892**	11,122
Increase/(decrease) in gross technical provisions	**2,023**	(177,096)
(Increase)/decrease in reinsurers' share of technical provisions	**(4,182)**	119,697
(Increase)/decrease in debtors	**(5,288)**	5,360
Increase in creditors	**16,969**	2,883
Movements in other assets/liabilities	**(22)**	(312)
Investment return	**(13,033)**	5,455
Net cash inflow/(outflow) from operating activities	**10,359**	(32,891)

24. Cash flows from investing activities

	2019 £000	2018 £000
Other		
Syndicate loan to Lloyd's Central Fund	**1,223**	–
Total	**1,223**	–

25. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulation Authority ("PRA") requirements and resources criteria. From 2013, these resources have been calculated by Lloyd's under the rules of the Solvency II regime.

The resource calculation 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 control of the managing agents, no amount has been shown in these annual accounts for such capital resources. However, managing agents are able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

26. Syndicate structure

The managing agent of the syndicate is ERS SML whose immediate parent undertaking is ERS Insurance Group Limited ("ERS IGL").

The ultimate UK parent undertaking of the largest and smallest group of companies for which group accounts are drawn up is ERS DGB Limited ("ERS DGB"). Copies of ERS DGB's financial statements can be obtained from the Company Secretary at 21 Lombard Street, London, EC3V 9AH.

27. Related Parties

Nicholas C T Pawson

Nicholas C T Pawson, a director of ERS SML, is a Name on Syndicate 218. His participation through a corporate entity is as follows:

Year of account	Stamp participation £000
2020	675
2019	575
2018	559
2017	459

ERS Corporate Member Limited ("ERS CML")

ERS CML is a wholly owned subsidiary of ERS IGL through which ERS DGB conducts its underwriting business at Lloyd's. ERS CML provides dedicated corporate capacity for the syndicate as follows:

Year of account	Stamp participation £000
2020	373,722
2019	324,203
2018	323,892
2017	292,860

ERS CML's share of the syndicate profit for the year is £8,036,354. ERS CML's share of the syndicate's 2017 closed year of account profit is £17,295,746.

ERS Syndicate Management Limited ("ERS SML")

ERS SML is a wholly owned subsidiary of ERS IGL and acts as managing agent for the syndicate. ERS SML charged the following managing fees to the syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2019 calendar year	4	4,316
2018 calendar year	4	4,313

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2017 closed year	–	4,310
2016 closed year	–	3,595

27. Related Parties (continued)

ERS Administration Services Limited ("ERS ASL")
ERS ASL is a wholly owned subsidiary of ERS IGL and provides services for all activities of the ERS DGB Group. All expenses not paid directly by the syndicate nor ERS SSL are paid for by ERS ASL and recharged accordingly. In accordance with ERS SML's current syndicate expense policy, which complies with the Lloyd's Code of Practice:

- Directly attributable expenses are recharged fully to the syndicate.
- Non-directly attributable expenses are recharged to the syndicate on an allocation basis across all other ERS IGL group companies. These allocations are on an equitable basis, to ensure no gain or loss arises from these accounting treatments.

ERS ASL recharged the following expenses to the syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2019 calendar year	(226)	186
2018 calendar year	(180)	370

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2017 closed year	(865)	725
2016 closed year	(1,265)	779

ERS Syndicate Services Limited ("ERS SSL")
ERS SSL is a wholly owned subsidiary of ERS SML and acts as a service company for the syndicate.

ERS SSL became an appointed representative of the managing agent ERS SML on 14 January 2005, and is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and PRA. The managing agent ERS SML does not receive any direct income from ERS SSL. No director of the managing agent ERS SML has received any benefit for acting as a director of ERS SSL.

ERS SSL recharged the following expenses to the syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2019 calendar year	25,758	51,029
2018 calendar year	31,024	56,661

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2017 closed year	37,414	48,005
2016 closed year	16,303	52,368

Underwriting Accounts
2017 Closed Year of Account

Report of the managing agent

ERS Syndicate Management Limited ("ERS SML" or "the Managing Agent"), the managing agent of Syndicate 218 ("the Syndicate") presents its report for the 2017 closed underwriting year of account as at 31 December 2019.

This report is prepared in accordance with Lloyd's regulations and the Syndicate Accounting Byelaw.

Review of the 2017 closed year of account

The 2017 account has closed with a profit of £28.3m after personal expenses representing a profit on underwriting capacity of 5.9%. The profit attributable to business reinsured into the 2017 year of account was £6.8m representing a profit on underwriting capacity of 1.4%. The pure 2017 underwriting year (excluding the 2016 and prior years which reinsured into 2017) has generated a profit of £21.5m representing 4.5% of underwriting capacity, which is a slight deterioration on the original syndicate business forecast expected profit of 6.8% of underwriting capacity.

Review of the business

This is available in the Report of the Managing Agent within the Annual Report and Accounts for the 2019 Financial Year.

Disclosure of information to the auditors

The directors of ERS SML who held office at the date of approval of the Report of the Managing Agent confirm that, so far as they are aware, there is no relevant audit information of which the syndicate's auditors are unaware, and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

Syndicate auditors

The syndicate's auditors, PricewaterhouseCoopers LLP, are deemed reappointed under the provisions of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

By order of the Board:

Ian D Parker
Director

4 March 2020

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the managing agent's report and the syndicate underwriting year accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("IAD") requires the managing agent to prepare syndicate underwriting year accounts at 31 December, in respect of any underwriting year which is being closed by reinsurance to close, which give a true and fair view of the results of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102"), as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005).

In preparing these syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies and apply these consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and accounting 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 underwriting year accounts.

The managing agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the business website. Legislation in the United Kingdom governing the preparation and dissemination of the syndicate underwriting year accounts may differ from legislation in other jurisdictions.

Independent auditors report to the members of Syndicate 218 – 2017 closed year of account

Report on the audit of the syndicate underwriting year accounts

Opinion

In our opinion, Syndicate 218's syndicate underwriting year accounts for the 2017 year of account for the three years ended 31 December 2019 (the "syndicate underwriting year accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its profit and cash flows for the 2017 closed year of account;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the syndicate underwriting year accounts included within the Report and Accounts 2019 (the "Annual Report"), which comprise: the Balance Sheet for the 2017 closed year of account as at 31 December 2019, the Statement of Comprehensive Income – Technical Account for General Business, the Statement of Comprehensive Income – Non-Technical Account, the Statement of Changes in Members' Balances and the Cash Flow Statement for the three years then ended, and the notes to the syndicate underwriting year accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Emphasis of matter – Basis of preparation

In forming our opinion on the syndicate underwriting year accounts, which is not modified, we draw attention to note 1 of the syndicate underwriting year accounts, which describes the basis of preparation. In particular, as these financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these financial statements. The syndicate underwriting year accounts are prepared in accordance with a special purpose framework for the specific purpose as described in the Use of this report paragraph below. As a result, the syndicate underwriting year accounts may not be suitable for another purpose.

Reporting on other information

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

In connection with our audit of the syndicate underwriting year accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate underwriting year accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Report of the Managing Agent
In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Managing Agent for the year ended 31 December 2019 is consistent with the syndicate underwriting year accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

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

Responsibilities for the syndicate underwriting year accounts and the audit

Responsibilities of the managing agent for the syndicate underwriting year accounts
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 51, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2017 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

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

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

Use of this report
This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

4 March 2020

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Statement of comprehensive income – technical account for general business

	Note	£000
Syndicate allocated capacity		**478,865**
Earned premiums, net of reinsurance		
Gross premiums written	2	**375,914**
Outward reinsurance premiums		**(20,975)**
Earned premiums, net of reinsurance		**354,939**
Reinsurance to close premium received, net of reinsurance	3	**168,468**
Allocated investment return transferred from non-technical account	11	**7,717**
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		**(252,091)**
Reinsurers' share		**13,967**
Net claims paid		**(238,124)**
Reinsurance to close premium payable, net of reinsurance	4	**(159,368)**
Claims incurred, net of reinsurance		**(397,492)**
Net operating expenses	5	**(105,352)**
Balance on the technical account for general business		**28,280**

The notes on pages 61 to 64 form an integral part of these underwriting accounts.

Statement of comprehensive income – non-technical account

	Note	£000
Balance on the technical account for general business		**28,280**
Investment return		
Investment income	11	**6,092**
Unrealised gains on investments	11	**7,902**
Investment expenses and charges	11	**(743)**
Unrealised losses on investments	11	**(5,534)**
Allocated investment return transferred to technical account for general business	11	**(7,717)**
		–
Other income		**1**
		1
Profit for the 2017 closed year of account		**28,281**

There are no differences between the result for the financial year stated above and the historical cost equivalents in the statement of comprehensive income for the period.

The notes on pages 61 to 64 form an integral part of these underwriting accounts.

Balance sheet

	Note	£000
Assets		
Investments	6	**123,445**
Debtors	7	**40,589**
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	4	**226,828**
		390,862
Other assets		
Cash at bank and in hand		**19,717**
Overseas deposits	8	**1,358**
Accrued interest and rent		**707**
Deferred acquisition costs	13	**2,247**
		24,029
Total assets		**414,891**
Members' balances		**27,308**
Liabilities		
Gross reinsurance to close premium payable	4	**386,196**
Creditors	9	**1,205**
Accruals and deferred income		**182**
		387,583
Total liabilities		**414,891**

The notes on pages 61 to 64 form an integral part of these underwriting accounts.

The underwriting year accounts on pages 56 to 60 were approved by the Board on 3 March 2020 and signed on behalf of the syndicate's managing agent by:

Ryan Warren
Finance Director

4 March 2020

Statement of changes in members' balances

	£000
2016 year of account	
Members' balances brought forward at 1 January 2019	**(25,862)**
Receipt of the loss from members' personal reserve funds	**25,862**
Members' balances carried forward at 31 December 2019	**–**
2017 year of account	
Profit for the closed 2017 year of account	**28,281**
Members' agents fees paid in year	**(973)**
Amounts due from members' carried forward at 31 December 2019	**27,308**
Combined amount due from members carried forward at 31 December 2019	**27,308**

The notes on pages 61 to 64 form an integral part of these underwriting accounts.

Cash flow statement

	Note	£000
Net cash inflow from operating activities	12	**9,613**
Cash flow from investing activities		
Purchase of equity and debt instruments		**(38,187)**
Sale of equity and debt instruments		**28,716**
Investment income received net of expenses paid		**(5,314)**
Net cash used in investing activities		**(14,785)**
Cash flow from financing activities		
Transfer to members in respect of underwriting participations		**25,862**
Members' agents fees		**(973)**
Net cash generated in financing activities		**24,889**
Net increase in cash at bank and in hand		**19,717**
Cash and cash equivalents at the beginning of the period		**–**
Cash and cash equivalents at the end of the period		**19,717**
Cash and cash equivalents consist of:		
Cash at bank and in hand		**19,717**
Cash and cash equivalents		**19,717**

The notes on pages 61 to 64 form an integral part of these underwriting accounts.

Notes to the accounts

1. Accounting policies

Basis of preparation

These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable accounting standards in the United Kingdom, comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Members participate in a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2017 year of account which has been closed by reinsurance to close as at 31 December 2019. Consequently, the balance sheet represents the assets and liabilities of the 2017 year of account at the date of closure. The underwriting account reflects the transactions for that year of account during the three year period from date of inception until closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

The underwriting accounts for each year of account are normally kept open for three years before the result for that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close ("RITC") premium to the successor year of account.

Accounting policies

The accounting policies adopted are the same as those disclosed in the annual report and accounts with the exception of:

RITC premium

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

2. Segmental analysis

2017 closed year of account	Gross premiums written and earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance					
Accident and health	–	97	–	(24)	73
Motor (third party liability)	–	–	–	–	–
Motor (other classes)	360,048	(223,714)	(99,707)	(15,509)	21,118
Fire and other damage to property	3,864	(1,640)	(1,551)	(155)	518
Other	12,002	(9,106)	(4,127)	(45)	(1,276)
	375,914	(234,363)	(105,385)	(15,733)	20,433
Reinsurance accepted	–	(216)	(4)	350	130
Total	**375,914**	**(234,579)**	**(105,389)**	**(15,383)**	**20,563**
Investment return					7,717
Technical account balance					**28,280**

3. RITC premium received, net of reinsurance

2016 year of account closure at 31 December 2018	£000
Gross	
Provision for reported claims	**388,143**
Provision for IBNR	**15,565**
Gross RITC received	**403,708**
Reinsurers' share	
Provision for reported claims	**(217,314)**
Provision for IBNR	**(10,128)**
Other technical provisions	**(7,798)**
Reinsurance recoveries anticipated on gross RITC premium received	**(235,240)**
RITC premium received, net of reinsurance	**168,468**

4. RITC premium paid, net of reinsurance

2017 year of account closure at 31 December 2019	£000
Gross	
Provision for reported claims	**348,764**
Provision for IBNR	**37,432**
Gross RITC payable	**386,196**
Reinsurers' share	
Provision for reported claims	**(197,366)**
Provision for IBNR	**(26,936)**
Other technical provisions	**(2,526)**
Reinsurance recoveries anticipated on gross RITC premium payable	**(226,828)**
RITC premium payable, net of reinsurance	**159,368**

Other technical provisions relate to the TPRe reinsurance recoverables on cedable claims that have not exceeded the attachment point.

5. Net operating expenses

	£000
Gross	
Acquisition costs – commission expenses	**54,527**
Acquisition costs – operating expenses	**19,683**
Administrative expenses	**22,334**
Lloyd's personal expenses and other charges	**7,135**
Auditors' remuneration	**826**
Directors' remuneration	**884**
	105,389
Reinsurers' share	
Acquisition costs – commission expenses	**(37)**
	(37)
Total	**105,352**

6. Investments

All financial instruments are designated as fair value through profit or loss on initial recognition.

	Fair value £000	Cost £000
Designated at fair value through profit or loss		
Shares, other variable yield securities and units in unit trusts	**52,300**	38,679
Debt securities and other fixed income securities	**69,860**	69,692
Participation in investment pools	**402**	399
Overseas deposits	**883**	883
Total	**123,445**	109,653

7. Debtors

	£000
Debtors arising out of direct insurance operations – intermediaries	**140**
Debtors arising out of reinsurance operations	**2,498**
Debtors due from related parties	**37,475**
Other	**476**
Total	**40,589**

8. Overseas deposits

Overseas deposits are amounts lodged as a condition of conducting underwriting business in certain countries. These comprise cash and cash equivalents.

9. Creditors

	£000
Creditors arising out of direct insurance operations – intermediaries	**428**
Other	**777**
Total	**1,205**

10. Discounted claims

The claims relating to PPOs have been discounted at the following rate. The period that will elapse before claims are settled is determined using impaired mortality tables.

Class of business	Discount rate	Mean term of liabilities
Motor	**3.0%**	**17.7 years**

The effect of discounting credits on claims provisions is shown as follows:

	Gross £000	Reinsurers' Share £000
Claims provisions before discounting	**438,294**	272,920
Discounting credits	**(52,098)**	(46,092)
Claims provisions after discounting	**386,196**	226,828

11. Investment return

	£000
Investment income	
Income from financial assets at fair value through profit and loss	6,056
Net gains on realisation of investments	36
	6,092
Unrealised gains on investments	7,902
Investment expenses and charges	(743)
Unrealised losses on investments	(5,534)
Total investment return	**7,717**

Investment returns are allocated from the non-technical to the technical account as the entire investment portfolio supports the general insurance business.

12. Reconciliation of profit for the year of account to net cash inflow from operating activities

	£000
Profit for the closed year of account	28,281
RITC premium received, net of reinsurance – non cash consideration	(153,985)
RITC premium payable, net of reinsurance	159,368
Increase in debtors	(20,319)
Decrease in creditors	(1,306)
Movements in other assets and liabilities	(22)
Investment return	(2,404)
Net cash inflow from operating activities	**9,613**

13. Deferred acquisition costs

	£000
Deferred acquisition costs – reinsurers' share	2,247
Total	**2,247**

Reinsurers' share of deferred acquisition costs relate to the deferral of TPRe fees.

14. Related parties

Information regarding related parties of the syndicate is disclosed on pages 47 to 48.

Seven year summary of results

	2011 closed	2012 closed	2013 closed	2014 closed	2015 closed	2016 closed	2017 closed
Syndicate allocated capacity (£'000)	485,976	436,931	437,278	437,522	349,828	359,462	478,865
Number of members of the syndicate	1,471	1,412	1,390	1,331	1,293	1,297	1,290
Aggregate net premiums (£'000)	499,876	418,546	347,434	346,344	372,521	377,246	354,939

	2011 closed	2012 closed	2013 closed	2014 closed	2015 closed	2016 closed	2017 closed
Result for a member with an illustrative share of £10,000							
Gross premiums written	10,938	9,932	9,725	8,695	11,040	11,559	7,850
As a percentage of allocated capacity	*109%*	*99%*	*97%*	*87%*	*110%*	*116%*	*79%*
Net premiums written	10,286	9,579	7,945	7,916	10,649	10,495	7,412
As a percentage of allocated capacity	*103%*	*96%*	*79%*	*79%*	*106%*	*105%*	*74%*
Premiums for the reinsurance to close an earlier year of account	4,971	5,427	4,750	3,365	3,760	4,306	3,518
Net claims paid	(8,120)	(6,793)	(5,740)	(5,893)	(7,329)	(7,751)	(4,973)
Reinsurance to close year of account	(4,880)	(4,754)	(3,368)	(3,006)	(4,425)	(4,687)	(3,328)
Underwriting result	2,257	3,459	3,587	2,382	2,655	2,363	2,629
As a percentage of gross premiums	*21%*	*35%*	*37%*	*27%*	*24%*	*20%*	*33%*
Syndicate operating expenses	(3,619)	(3,464)	(3,333)	(2,900)	(3,132)	(2,931)	(2,051)
Net underwriting result	(1,362)	(5)	254	(518)	(477)	(568)	578
As a percentage of gross premiums	*(12%)*	*(0%)*	*3%*	*(6%)*	*(4%)*	*(5%)*	*7%*
Investment return	283	188	156	205	193	68	161
Profit/(loss) before personal expenses	(1,079)	183	410	(313)	(284)	(500)	739
Illustrative personal expenses	(177)	(152)	(166)	(161)	(181)	(193)	(149)
Illustrative profit commission	–	–	–	–	–	–	–
Profit/(loss) after illustrative profit commission and personal expenses (£)	(1,256)	31	244	(474)	(465)	(693)	590

Notes:

1. The illustrative profit commission and personal expenses are estimates of amounts which might be charged on a share of £10,000.
2. The effect of any minimum charges on personal expenses or deficit clauses on profit commission has been ignored.
3. Investment expenses are included within investment return.
4. Syndicate operating expenses include foreign exchange differences and other non-technical income and charges.

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The specialist
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ERS
The specialist motor insurer
ERS Syndicate Management Limited
21 Lombard Street, London, EC3V 9AH