Accounts disclaimer

The disclaimer on the following page is to be included at the front of each set of pdf accounts submitted to Lloyd's.

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

Coverys Managing Agency Limited

Report and Financial Statements
Syndicate 1975
for the year ended
31 December 2020

	Page

Administration

Managing Agent:
Coverys Managing Agency Limited
6th Floor, One Creechurch Place
London EC3A 5AF

Syndicate:
Active Underwriter
V Minetti (1 July 2020 – date)
P M Sloan (1 January 2020 – 1 July 2020)

Bankers
Barclays Bank plc
1 Churchill Place
London E14 5HP

Independent Auditors:
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Managing Agent's report

Coverys Managing Agency Limited (trading as "Coverys at Lloyd's") presents its report for syndicate 1975 for the year ended 31 December 2020.

Strategic report

The managing agent's report should be read in conjunction with the strategic report as it includes information required to be disclosed in the managing agent's report. This information is primarily relating to a review of the business and a description of principal risks and uncertainties, although there is more extensive disclosure of risk management on page 23.

Directors

The directors of the managing agent who served during the year ended 31 December 2020 and up to the date of this report were as follows:

E B Bagley	Group non-executive director
M Bell	Executive director
C D Charles	Non-executive director
A G Chopourian	Executive director
S A Davies	Non-executive director – appointed on 15 January 2021
R D Forster	Executive director – appointed on 20 November 2020
D W Hipkin	Non-executive director – appointed on 6 February 2020
R E McCoy	Executive director
T C Mills	Group non-executive director
J Marshall	Secretary – appointed on 27 April 2020
D M Reed	Non-executive director – resigned on 25 September 2020
P M Sloan	Executive director – resigned on 15 July 2020
A D Smith	Secretary – resigned on 27 April 2020
D T Wright	Executive director – appointed 1 July 2020 and resigned on 11 January 2021

Annual General Meeting

The directors do not propose to hold an annual general meeting for the syndicate.

Auditors

Pricewaterhousecoopers LLP have indicated their willingness to continue in office as the syndicate's auditor.

Disclosure of Information to Auditors

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

Approved by order of the Board of Coverys at Lloyd's.

R E McCoy
Chief Executive Officer
1 March 2021

Strategic report

The directors of Coverys at Lloyd's present their strategic report for syndicate 1975 for the year ended 31 December 2020.

Principal activity and review of the business

Syndicate 1975 is a specialist in insurance and reinsurance across a broad range of medical professional liability and healthcare lines and was approved by Lloyd's to commence underwriting at 1st January 2018.

2020 saw the hiring of a new Active Underwriter, Valentina Minetti, and under her leadership the strengthening of the underwriting team. Progress during 2020 has been very encouraging with significant levels of new business and the non-renewal of business no longer within risk appetite.

It is disappointing to record a loss for the year, which is driven primarily by reserves strengthening on discontinued business plus reserves for possible claims arising from the COVID-19 pandemic.

COVID-19

COVID-19 has impacted all organisations in many ways. Operationally, we have adapted our ways of working such that the vast majority of our staff are able to work from home. As described in the notes to the accounts, there is uncertainty in all loss reserves but, in the case of COVID-19, that uncertainty is extended by the nature of the loss event and the fact that the loss is ongoing.

In terms of COVID-19 losses, the syndicate has recorded a net loss reserve of £7.5m

- Physicians Professional Liability net reserve £0.2m
- Facility Professional Lines net reserve £1.6m
- International Medical Professional Liability net reserve £1.5m
- Miscellaneous net reserve £1.4m
- Long Term Care net reserve £2.2m
- Group Quota Share net reserve £0.6m

Key Performance Indicators

The managing agent considers the following to be the key performance indicators for the syndicate:

	2020	*2019*
Gross premiums written	*£54.7m*	*£38.7m*
Loss for the year	*(£21.1m)*	*(£8.4m)*
Net combined ratio	*154%*	*126%*

Results

The result for the year is a loss of £21.1m.

The current year of account forecasts (including COVID-19 provisions) are as follows:

	2020 account	*2019 account*	*2018 account*
Gross premiums written	*£56.5m*	*£40.0m*	*£43.3m*
Loss	*(£7.3m)*	*(£9.3m)*	*(£16.4m)*
Net combined ratio	*114%*	*129%*	*142%*

Strategic report (continued)

Changes in regulatory requirements are closely monitored by the managing agent and are taken into account in the planning of forward strategy.

Future Developments
The syndicate is ongoing and has a £50m stamp capacity approved by Lloyd’s as part of the 2021 year of account Syndicate Business Forecast process. The expectation is that the syndicate will continue underwriting in 2022 and beyond.

Post Balance sheet events
There have been no significant post balance sheet events.

Other performance indicators

Staff matters
The managing agent considers its staff to be a key resource and seeks to provide a good working environment that is rewarding and safe and complies with appropriate employee legislation. Recognising that culture, values and standards underpin how the managing agent creates and sustains value, in 2020, it developed with staff consultation, a set of Core Values to help guide the managing agent’s decision-making and thereby promote its success. The Core Values are being embedded and have been a factor in shaping the managing agent’s response to the COVID-19 pandemic and, in particular, the requirement to work virtually for an uncertain and prolonged period, This further highlighted the importance of employee mental health issues and from March 2020, the Executive Committee has met fortnightly to discuss exclusively the issues raised by the pandemic with a focus on employee well-being.

During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

On 1 July 2020 V Minetti was appointed as active underwriter, taking over from P Sloan.

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

The managing agent takes a responsible approach in the management of assets by striving to invest in institutions that do no harm on the environment. The asset manager incorporates Economic, Social and Corporate Governance (ESG) factors in its assessment of investment alternatives and monitors the portfolio’s ESG impact on a regular basis.

Part VII transfer
On 30 December 2020, the Lloyd’s market entered into two separate transactions with Lloyd’s Insurance Company S. A. (LIC)

- The Part VII transfer for the back book of EEA business to LIC by the Lloyd’s Members (transfer of insurance liabilities);

- The purchase of a 100% quota share reinsurance policy by LIC from Lloyd’s Members to cover these liabilities

The syndicate did not write any EU business to be transferred prior to April 2019, therefore was not impacted by the Part VII transfer.

Strategic report (continued)

Approved by order of the Board of Coverys at Lloyd's.

R E McCoy
Chief Executive Officer
1 March 2021

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the Annual Report and the Syndicate Annual Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") requires the managing agent to prepare Syndicate Annual Financial Statements at 31 December each year which give a true and fair view of the state of affairs of the syndicate and of its profit or loss for that year.

In preparing those Syndicate Annual Financial Statements, the managing agent is required to:

- select suitable accounting policies, and apply them consistently except where relevant accounting requirements change;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Syndicate Annual Financial Statements; and
- prepare the Syndicate Annual Financial Statements on a going concern basis, unless it is inappropriate to do so.

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

Independent auditor's report to the Member of Syndicate 1975

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 1975's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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 Financial Statements (the "Annual Report"), which comprise: the Balance sheet – Assets and the Balance sheet – Liabilities as at 31 December 2020; the Statement of profit or loss account: Technical account – general business; the Statement of profit or loss account: Non-technical account and retained earnings, and the Statement of cash flows for the year then ended; Statement of accounting policies, Risk management and the notes to the syndicate annual accounts.

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 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the syndicate's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

Independent auditor's report to the Member of Syndicate 1975 (continued)

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing Agent's Report and the Strategic report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report and the Strategic report for the year ended 31 December 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of managing agent's responsibilities, 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.

Independent auditor's report to the Member of Syndicate 1975 (continued)

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to determined that the principal risks were related to revenue recognition and management override of controls. Audit procedures performed included:

- Discussions with senior management involved in the Risk and Compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of any matters reported on the company's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with Lloyd's, the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee;
- Testing journal entries identified in accordance with our risk assessment;
- Identifying and testing estimated premium income on a sample basis;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and,
- Testing material transactions entered into outside of the normal course of the company's business where they exist.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's member in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not obtained 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.

Robert Cordock (Senior statutory auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

4 March 2021

Statement of profit or loss
Technical account – general business
Year ended 31 December 2020

	Notes	2020 £000	2020 £000	2019 £000	2019 £000
Earned premiums, net of reinsurance					
Gross premiums written	1	54,682		38,657	
Outward reinsurance premiums		(3,801)		(2,035)	
Net premiums written			50,881		36,622
Change in provision for unearned premiums:					
Gross amount		(6,482)		(1,706)	
Reinsurers' share		722		910	
Change in the net provision for unearned premiums			(5,760)		(796)
Earned premiums, net of reinsurance			45,121		35,826
Allocated investment return transferred from the non-technical account			1,254		504
Total technical income			46,375		36,330
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		(8,524)		(3,302)	
Reinsurers' share		-		-	
Net claims paid		(8,524)		(3,302)	
Change in the provision for claims:					
Gross amount		(45,613)		(26,148)	
Reinsurers' share		3,803		(226)	
Change in the net provision for claims		(41,810)		(26,374)	
Claims incurred, net of reinsurance			(50,334)		(29,676)
Net operating expenses	3,4,5		(18,966)		(15,478)
Balance on the technical account for general business			(22,925)		(8,824)

The accounting policies and notes on pages 17 to 38 form part of these financial statements

Statement of profit or loss
Non-technical account and members balances
Year ended 31 December 2020

	Notes	2020 £000	2019 £000
Balance on the general business technical account		(22,925)	(8,824)
Investment income	6	509	425
Investment expenses and charges	6	(38)	(24)
Realised gains on investments	6	502	69
Unrealised gains on investments	6	281	34
Allocated investment return transferred to technical account – general business		(1,254)	(504)
Non-technical account charges		1,788	455
Loss for the financial year		(21,137)	(8,369)

Statement of other comprehensive income for the year ended 31 December 2020

	2020 £000	2019 £000
Loss for the financial year	(21,137)	(8,369)
Total comprehensive income for the financial year	(21,137)	(8,369)

Statement of changes in members balances	2020 £000	2019 £000
Balance due from member at 1 January	(11,609)	(3,222)
Total comprehensive income for the financial year	(21,137)	(8,369)
Payments of profit to member's personal reserve funds	-	-
Member's agent fees	(12)	(18)
Balance due from member at 31 December	(32,758)	(11,609)

There are no discontinued operations

The accounting policies and notes on pages 17 to 38 form part of these financial statements

Balance sheet - Assets
at 31 December 2020

	Notes	£000	2020 £000	£000	2019 £000
Investments					
Shares and other variable yield securities		3,732		1,158	
Debt securities and other fixed income securities		29,566		21,856	
Participation in investment pools		-		-	
			33,298		23,014
Reinsurers' share of technical provisions					
Provision for unearned premiums	2	1,593		943	
Claims outstanding	2	3,875		321	
			5,468		1,264
Debtors					
Debtors arising out of direct insurance operations	9	18,027		11,163	
Debtors arising out of reinsurance operations	9	-		-	
Other debtors	10	90		925	
			18,117		12,088
Other assets					
Cash at bank and in hand		8,293		3,516	
Overseas deposits		1,937		853	
			10,230		4,369
Prepayments and accrued income					
Deferred acquisition costs		5,992		4,503	
Other prepayments and accrued income		849		1,070	
			6,841		5,573
Total assets			73,954		46,308

The accounting policies and notes on pages 17 to 38 form part of these financial statements

Balance sheet – Liabilities at 31 December 2020

	Notes	£000	2020 £000	£000	2019 £000
Capital and reserves					
Member's balances			(32,758)		(11,610)
Technical provisions					
Provision for unearned premiums	2	22,577		16,692	
Claims outstanding	2	81,617		39,864	
			104,194		56,556
Creditors					
Creditors arising out of direct insurance operations	11	-		-	
Creditors arising out of reinsurance operations	11	1,379		553	
Other creditors	11	-		-	
			1,379		553
Accruals and deferred income	11		1,139		809
Total liabilities			73,954		46,308

The accounting policies and notes on pages 17 to 38 form part of these financial statements

The syndicate annual accounts were approved by the Board of Directors of Coverys at Lloyd's and were signed on its behalf by

R E McCoy
Chief Executive Officer

M Bell
Finance Director
1 March 2021

Statement of cash flows
Year ended 31 December 2020

	2020 £000	2019 £000
Cash flow from operating activities		
Loss for the financial year	(21,137)	(8,369)
Adjustments for:		
Increase in gross technical provisions	47,638	26,006
Increase in reinsurers' share of technical provisions	(4,204)	(640)
Increase in debtors, prepayments & accrued income	(7,297)	(4,836)
Increase in creditors	1,156	681
Investment return	(1,254)	(504)
Net cash generated from operating activities	14,902	12,338
Cash flows from investing activities:		
Purchase of equity & debt instruments	(143,899)	(177,977)
Sale of equity & debt instruments	131,697	153,617
Investment income received	1,254	504
Changes to market value and currency	1,185	890
Net cash generated from investing activities	(9,762)	(22,966)
Cash flows from financing activities:		
Member's agent's fees	(12)	(18)
Net cash from financing activities	(12)	(18)
Net increase/(decrease) in cash & cash equivalents in year	5,128	(10,646)
Cash & cash equivalents at beginning of year	3,516	14,308
Foreign exchange movements in cash and cash equivalents	(351)	(146)
Cash & cash equivalents at end of the year	8,293	3,516
Cash & cash equivalents comprise:		
Cash at bank and in hand	8,293	3,516
	8,293	3,516

The accounting policies and notes on pages 17 to 38 form part of these financial statements

Statement of accounting policies

General information
Syndicate 1975 is a Lloyd's syndicate domiciled in England and Wales. It is managed by Coverys at Lloyd's, a private company limited by shares that is incorporated in England and whose registered office is 6th Floor, One Creechurch Place, London, EC3A 5AF.

The syndicate commenced business on the 1st January 2018, providing traditional and innovative coverage for physicians, hospitals and other providers of healthcare.

Compliance with accounting standards
These financial statements have been prepared in accordance with United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" and regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008). There were no material departures from those standards.

Basis of preparation
The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss which are measured at fair value.

Going concern basis
These financial statements are prepared on a going concern basis.

The syndicate's business activities, together with the factors likely to affect its future development, are set out in the business review contained within the strategic report. In addition, the risk management section provides details of the financial risks the syndicate is exposed to and how those risks are managed.

The directors have a reasonable expectation that the syndicate has adequate resources including the funds at Lloyd's of the member supporting the syndicate (as detailed in note 9) to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of accounting
The underwriting results are determined on an annual basis of accounting. Under the annual basis of accounting, the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

Gross Premiums written
Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums on contracts incepted in prior accounting periods. Premiums are shown gross of commission payable and exclude taxes and duties levied on them.

Change in provision for gross unearned premiums
Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion 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 earnings patterns or time apportionment as appropriate.

Reinsurance premium ceded
Reinsurance premiums are allocated to a year of account in accordance with the underlying risks being protected or in relation to the coverage period of the contract as appropriate. Any reinsurance premium adjustments are charged to a year of account according to the basis on which the adjustments concerned are calculated.

Statement of accounting policies (continued)

Change in provision for reinsurance unearned premiums
Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion 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 earnings patterns, time apportionment or look through to underlying gross exposures as appropriate.

Technical provisions - claims incurred, net of reinsurance
Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year and the movement in provision for outstanding claims and settlement expenses brought forward. Allowance is made for the cost of claims incurred by the balance sheet date but not reported until after the year-end. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). IBNR is calculated using standard actuarial techniques. At this early stage of development of the syndicate and given the relatively long-tailed nature of the business written, heavy reliance is placed on loss ratios from the business plan as updated by detailed pricing work undertaken on individual risks by the pricing actuaries. Some regard is given to Lloyd's Risk Code data from the LMA where we weight the individual Risk Code triangles in line with the premiums written by class. The provision for claims also includes amounts in respect of internal and external claims handling costs.

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

Accordingly the two most critical assumptions with regards to claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used, including pricing models, for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

The level of uncertainty with regard to the estimations within these provisions generally decreases with time as experience develops. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim, this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The directors consider that the provisions for gross claims outstanding and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

Statement of accounting policies (continued)

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

Net operating expenses (including acquisition costs)
Net operating costs include acquisition costs, profit and loss on exchange and amounts charged to the member through the syndicate.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Employee costs include the cost of all employee benefits to which employees have become entitled as a result of service rendered to the entity during the reporting period, which the managing agent considers to be attributable to this syndicate.

Foreign currencies
The presentational and functional currency of the syndicate is Sterling. Transactions in US dollars, Euros and Canadian dollars are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

All monetary balance sheet assets and liabilities, including unearned premiums and deferred acquisition costs are translated into the Sterling functional currency at the rates of exchange at the balance sheet date. The profit or loss arising on the retranslation of balances to the closing rate of exchange is dealt with through the statement of comprehensive income – non technical account.

FINANCIAL ASSETS AND LIABILITIES

Classification

The full provisions of FRS 102 have been applied to the treatment of financial instruments. The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the profit or loss or other comprehensive income. These classifications are made at initial recognition and subsequent reclassification is only permitted in restricted circumstances.

Investments in shares and other variable yield securities and unit trusts and debt securities and other fixed income securities are classified as fair value through profit or loss as they are managed on a fair value basis. Cash at bank, deposits with credit institutions, debtors and accrued interest are classified as held at amortised cost.

Recognition

Financial assets and liabilities are recognised when the syndicate becomes party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the asset after deducting all of its liabilities.

Statement of accounting policies (continued)

Initial measurement

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Subsequent measurement

Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Investments in shares and other debt instruments are measured at fair value through profit or loss. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in previous calendar years in respect of the investment disposed of in the current period.

De-recognition of financial assets and liabilities

Financial assets are derecognised when and only when a) the contractual rights to the cash flow from the financial asset expire or are settled, b) the syndicate transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the syndicate, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse in time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the syndicate estimates the fair value by using a valuation technique.

Impairment of financial instruments measured at amortised cost or cost

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate, i.e. using the effective interest method.

Statement of accounting policies (continued)

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

Offsetting

Debtors/creditors arising from insurance/reinsurance operations shown in the balance sheet include the totals of all outstanding debit and credit transactions as processed by the syndicate and through the Lloyd's central facility. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicate and each of its counterparty insureds, reinsurers or intermediaries as appropriate.

Investment return

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

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

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 have been included in the balance sheet under the heading 'other debtors'.

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

Statement of accounting policies (continued)

Profit commission

Profit commission is charged by the managing agent at 15% of the profit on the year of account basis subject to the operation of a deficit clause. This is charged to the syndicate as incurred but does not crystallise until after the appropriate year of account closes, normally at 36 months.

Pension costs

Coverys MA Services Limited (CMAS), a wholly owned subsidiary of Coverys at Lloyd's, operates a defined contribution scheme on behalf of the managing agency. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses and other acquisition costs.

Key accounting judgements and estimation uncertainties

Of the various accounting judgements, assumptions and estimates made in the preparation of these financial statements, those relating to the determination of the technical provisions, premium income and investment valuations are considered to be those most critical to understanding the syndicate's results and financial position.

Technical provisions

The accounting policy for technical provisions is described on page 18 and the related risks are described on page 24. The net technical provisions after the reinsurers' share is £98,726k (2019: £55,292k) comprising provisions for unearned premium and outstanding claims (note 2). The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either the claim has been notified to the syndicate or where there has not yet been a notification or although notified there has been insufficient information to date to be certain regarding its ultimate costs. The net amount amounted to £77,742k (2019: £39,543k). As described in the risk management section there is a thorough review process of claims notifications and reserving estimates. There is a fairly limited spread of risks written as the syndicate is highly specialised. Within the medical professional liability sector, the syndicate achieves spread by writing within the various sub sections (physicians, facilities, international and long-term care). Where investment has also been made in risk management across many of the risks; these combined should reduce the risk of a common trend of adverse development occurring.

The uncertainty within technical provisions may be mitigated to some extent by the element that reinsurers' share, although there are also uncertainties associated with the estimation of these recoveries.

Premium income

The accounting policy for written and earned premium income is described on page 17 and the related risks are described on page 23. The estimation of written premium includes amounts for additional or return premiums and business that may have been underwritten but not yet notified. The earning of this premium has been calculated on a basis of time apportionment. The directors consider that this represents a reasonable approximation of the overall earning risk profile of the policies written. As described in the risk management section there is detailed evaluation of premium written estimates at the time of writing risks and these are monitored and checked as remaining valid until they are received.

Investment valuations

All investments are shown at their fair value as described in the accounting policy on page 19 and details of the risks relating to investments are disclosed on page 25. All investments are highly rated securities and regularly traded on major stock exchanges so that the risks in their valuations are reduced.

Risk management

Coverys approach to syndicate risk management

The syndicate's activities expose it to a variety of financial and non-financial risks. The syndicate's core business is to accept significant insurance risk, whilst the appetite for other risks is low. The managing agent is responsible for understanding and managing the syndicate's exposure to such risks, and does this through the deployment of its risk management framework.

The Coverys at Lloyd's risk management framework includes an annual review, setting and Board approval of risk appetite for the syndicate as a part of the syndicate business planning and capital setting process. The Risk Management Function regularly assess the risks to which the syndicate is exposed, and where deemed necessary, ensure that controls and procedures are in place to mitigate the effects of such risk to an acceptable level. A Risk and Capital Committee meets regularly to monitor performance against the approved risk appetite using a set of key risk indicators, and provide oversight and challenge to ensure the syndicate operates in a robust control environment.

Critical to the risk management of the syndicate is ensuring sufficient capital is in place to meet the solvency needs of the syndicate. An internally developed capital model for S1975 is used to quantify the syndicate's capital requirements based on the assessment of the risks impacting the syndicate's business and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective.

As described in note 12, the managing agent is required to prepare a Solvency Capital Requirement (SCR) return to Lloyd's annually, using the results of the internal model, to agree capital requirements for the syndicate with Lloyd's.

Syndicate risk exposures

The following provides a summary of the types of risks to which the syndicate is exposed, the materiality of the risk to the syndicate and their key drivers, and the risk management tools and procedures in place to mitigate these risks.

Insurance risk

The very nature of the syndicate's business exposes it to the likelihood that claims will arise from business written. Insurance risk is the principal risk the syndicate faces and arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities. The key drivers of insurance risk which affect the syndicate are:

- **Catastrophic events** - the risk that catastrophic events occur which will lead to claims at a level not anticipated by the syndicate.
- **Rating levels (pricing)** - the risk that the expected attritional losses and anticipated catastrophic events, together with the cost of reinsurance, will result in net claims which exceed the premium income of the syndicate.
- **Reserving** - the risk that the reserves established by the syndicate at the previous year-end prove to be inadequate.

Insurance risk is quantified in the internal model using the plan data and projections (informed by syndicate experience and discussions with business owners) in relation to the above drivers of the risk.

Risk management (continued)

Catastrophic events

The managing agent has developed underwriting guidelines which express limits on individual risks, as well as per class of business. The syndicate uses Realistic Disaster scenarios (RDSs) as a tool to monitor the aggregation of exposure and adherence to underwriting limits, to simulate catastrophe losses on aggregate exposures, and the effectiveness of the syndicate's reinsurance programmes. The syndicate's RDSs are a combination of those "specified by Lloyd's" and some developed internally and provide an estimate of the effect on the syndicate results of an aggregation of claims arising from a number of extreme scenarios. The results of these RDSs are reviewed by syndicate management regularly and are submitted to Lloyd's as required.

Business volumes and rating levels

The managing agent produces an annual business plan for the syndicate. The expected syndicate performance will be based on the volume of business written, at the planned loss ratios, expected terms and conditions and other P&L items including expenses. Performance against plan is monitored on a regular basis through the Delegated Underwriting Working Group (for delegated business), as well as regular review and oversight by the Underwriting Committee and Board. If market conditions change materially after the plan is approved by Lloyd's, a revised plan is prepared for authorisation by the Board. In this way, rating levels of both businesses written, and reinsurance purchased are subject to ongoing review.

Where rating levels or business volumes are under pressure, the syndicate will seek to review the business plan and will examine all relevant P&L items such as the syndicate's class of business performance, expense ratios, reinsurance arrangements, etc. The syndicate's governance framework encompassing various committees and ultimately the Board provide the requisite oversight.

Reserving risk

There are a number of drivers of reserving risk.

Reserves are established for earned premium income, and unearned premium. The reserves in relation to the former are claims reserves. In relation to the latter, there is an unearned premium reserve, and there may also be an additional unexpired risk provision. In addition, a reserve for Unallocated Loss Adjustment Expenses (ULAE) will also be established and an allowance made for bad debt.

In order to mitigate reserving risk, the Coverys at Lloyd's actuarial function uses a number of actuarial techniques to project gross and net premiums and gross and net insurance liabilities on a best estimate basis. The results of these techniques are then subject to formal peer review. This is an iterative process where the internal actuaries discuss data, models, methods and assumptions. This involves a considerable amount of challenge. Once the actuaries have completed their peer review of reserves, the results of the external actuary's projections are then compared to those proposed by the Coverys at Lloyd's actuarial function.

Risk management (continued)

Reserving risk (continued)

The Chief Actuary will then make a reserve recommendation to the Board including (if necessary) any loadings required. The level of booked reserves requires formal approval by the Board and is subject to an external audit and further actuarial opinion. The independent reserve assessment is presented in a Statement of Actuarial Opinion (SAO) to confirm the adequacy of the reserves and is provided annually to Lloyd’s.

	2020 £000	2019 £000
Gross outstanding claims provision	81,617	39,865
Net outstanding claims provision	77,742	39,544
Net unearned premium provision	20,983	15,748
1% movement in net outstanding claims	(777)	(395)

The above assumes that the reinsurers share pro-rata in any deterioration in outstanding claims which may not be the case. Although unearned premiums should not be affected by such movements in outstanding claims, larger movements in loss ratios could trigger a need for an Unexpired Risk Provision if expected claims rise above the level of the unearned premiums.

Investment risk

The syndicate's asset holdings expose it to investment risk, driven by the following sub-risk types: spread risk, currency and interest rate risks. There is also a small exposure to liquidity risk although risk reduces over time as the syndicate assets increase.

The syndicate’s investment policy is established by the Board following recommendations by the Coverys at Lloyd’s Investment Committee. In order to mitigate market risk, the Board, through delegation to the Investment Committee, monitors the economic situation to seek to anticipate any future interest rate movements and to take appropriate action to mitigate its effect on the value of syndicate assets.

Market risk will be quantified in the internal model using the syndicate’s asset holdings positions and an economic scenario generator (ESG) to simulate the impact of the market risks to the asset portfolio.

Liquidity risk

To mitigate liquidity risk, the Board reviews cash flow projections and maintains cash levels consistent with the needs of the syndicate. The syndicate maximises the inflow of funds from reinsurance recoveries and outstanding premiums and controls costs through the reporting of the expense budget.

Risk management (continued)

Liquidity risk (continued)

The following table summarises the maturity profile of the syndicate's financial liabilities.

Expected cash flows	**Less than 1 year £000**	**1 to 3 years £000**	**3 to 5 years £000**	**More than 5 years £000**	**Total £000**
As at 31 December 2020					
Gross claims outstanding	13,997	29,724	20,481	17,416	81,618
Creditors	1,379	-	-	-	1,379
Total credit risk	15,376	29,724	20,481	17,416	82,997
As at 31 December 2019					
Gross claims outstanding	5,010	16,258	12,504	6,093	39,865
Creditors	553	-	-	-	553
Total credit risk	5,563	16,258	12,504	6,093	40,418

The following is an analysis of the estimated timing of net cash flows for the net claims liabilities held at the end of the year and at the previous year-end. These forecasts are based upon current estimates and historic trends and the actual timings of these future settlements may differ materially from the estimates below.

Expected cash flows	**Less than 1 year £000**	**1 to 3 years £000**	**3 to 5 years £000**	**More than 5 years £000**	**Total £000**
2020 net claims liabilities	13,723	29,143	20,081	17,077	80,024
2019 net claims liabilities	4,970	16,127	12,403	6,044	39,544

Currency risk

The main exposure to foreign currency risk arises from insurance business originating overseas. The syndicate attempts to fully match assets with liabilities on a regular basis.

The syndicate is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The syndicate deals in three main currencies: Sterling, Canadian dollars and US dollars. Transactions may also take place in other currencies, although these are immediately converted to Sterling.

If the exchange rates of all non-GBP currencies moved by a foreseeable 10% either to the benefit or detriment of the syndicate at the same time, the impact on both the result for the year and the member's balances would be £2,873k (2019: £1,157k) with US Dollar net assets being the largest element. The syndicate monitors these currency balances and aims to ensure excessive balances beyond accumulated profits do not accrue beyond those necessary to meet overseas trust fund requirements. The syndicate has not undertaken any transactions to hedge these balances.

Risk management (continued)

The following table, expressed in Sterling, shows that the total net assets and liabilities held by the syndicate.

	£ £000	US$ £000	Can$ £000	Other £000	Total £000
As at 31 December 2020					
Financial investments	838	29,804	2,656	-	33,298
Overseas deposits	113	1,206	388	230	1,937
Reinsurers' share of technical provisions	267	5,100	60	41	5,468
Insurance & reinsurance debtors	4,026	9,190	3,301	1,510	18,027
Cash at bank	164	6,724	238	1,167	8,293
Other assets including deferred acquisition costs	2,660	3,758	97	416	6,931
Total assets	8,068	55,782	6,740	3,364	73,954
Technical provisions	10,774	86,581	3,768	3,071	104,194
Insurance & reinsurance creditors	190	1,184	5	-	1,379
Other creditors	1,139	-	-	-	1,139
Total liabilities	12,103	87,765	3,773	3,071	106,712
Surplus/(deficiency) of assets	(4,035)	(31,985)	2,967	293	(32,760)
As at 31 December 2019					
Financial investments	175	21,937	901	-	23,013
Overseas deposits	23	677	129	25	854
Reinsurers' share of technical provisions	2	1,214	46	3	1,265
Insurance & reinsurance debtors	693	7,680	2,617	172	11,162
Cash at bank	117	3,191	151	58	3,517
Other assets including deferred acquisition costs	1,937	4,476	79	6	6,498
Total assets	2,947	39,175	3,923	264	46,309
Technical provisions	1,926	51,766	2,646	219	56,557
Insurance & reinsurance creditors	-	553	-	-	553
Other creditors	1,056	(247)	-	-	809
Total liabilities	2,982	52,072	2,646	219	57,919
Surplus/(deficiency) of assets	(35)	(12,897)	1,277	46	(11,610)

Risk management (continued)

Interest rate risk

The syndicate's main exposure to fluctuation in interest rates arises from its effect on the valuation of funds invested in bonds and equities. In order to mitigate this risk, the Board, advised by its external investment managers, monitors the economic situation to seek to anticipate any future interest rate movement and to take appropriate action to mitigate its effect on the value of investments held.

The largest element of the syndicate's investments comprises of fixed income securities. The fair value of the investment in fixed income securities is inversely correlated to the movement in market interest rates. If market rates fall, the fair value of the syndicate's fixed interest investments would tend to rise and vice versa. Fixed income assets are predominantly invested in high quality corporate, government, supranational bonds and residential mortgage backed securities. The investments typically have relatively short durations and terms to maturity.

	2020 £000	2019 £000
Impact of a 50-basis point increase in interest rates on result	(148)	(109)
Impact of a 50-basis points decrease in interest rates on result	148	109
Impact of a 50-basis points increase in interest rates on net assets	(148)	(109)
Impact of a 50-basis point decrease in interest rates on net assets	148	109

Credit risk

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

- **Reinsurers:** Whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate.
- **Brokers and intermediaries:** Whereby counterparties fail to pass on premiums collected or claims paid on behalf of the syndicate.
- **Financial instruments:** Whereby issuer default results in the syndicate losing all or part of the value of a financial instrument.

Reinsurance credit risk

When considering the panel of reinsurers for its reinsurance programme, the syndicate seeks to place protection across a broad spread of counterparties, although due to the small size of the syndicate, and its limited use of reinsurance, there is a concentration to Coverys group (Group Reinsurance) (note 15).

With regards to external reinsurance, the syndicate is committed to using only the highest rated reinsurers. The proposed pool of potential reinsurers is reviewed and agreed by the Underwriting Committee ahead of placing. All reinsurers used to date have been at least "A-", rated by Standard & Poor's, and the termination clause of all policies stipulates this as a minimum financial rating going forwards. If a reinsurer rating falls below "A-", the Underwriting Committee would be consulted to rule upon invocation of the termination clause.

There are a number of ways in which the syndicate considers and monitors reinsurance counterparty financial strength such as deterministically (monitored by the reinsurance team, and stochastically, monitored by the capital team.) The Coverys at Lloyd's internal model considers the financial ratings of each participating reinsurer and calculates the effect of reinsurer default on the syndicate's ability to make reinsurance recoveries.

Risk management (continued)

Brokers and Intermediaries

The Coverys at Lloyd's policy is to ensure that claims funds held by third party administrators are held in segregated bank accounts and are not subject to credit risk.

Financial instruments risk

The syndicate has debtors, creditors, bank balances and investments in various currencies in the normal course of its business. The risks with regard to these transactions are detailed above and none of these financial instruments are considered to present any risks that are exceptional in their nature for their type of instrument. The syndicate does not actively enter into derivatives, hedging or other uses of financial instruments as part of its financial risk management.

The following tables analyse the Syndicate's major exposures to counterparty credit risk excluding loans and receivables, based on Standard & Poor's or equivalent rating at 31 December 2020.

	AAA £000	AA £000	A £000	BBB/NR £000	Total £000
As at 31 December 2020					
Variable yield securities and unit trusts	-	2,742	990	-	3,732
Debt securities	-	18,704	8,279	2,583	29,566
Overseas deposits as investments	734	653	277	273	1,937
Reinsurers' share of claims outstanding	-	2,193	1,682	-	3,875
Cash at bank and in hand	-	238	8,054	-	8,293
Total credit risk	734	24,530	19,282	2,856	47,403
As at 31 December 2019					
Variable yield securities and unit trusts	-	903	255	-	1,158
Debt Securities	-	13,197	6,334	2,325	21,856
Overseas deposits as investments	524	75	156	98	853
Reinsurers' share of claims outstanding	-	163	158	-	321
Cash at bank and in hand	-	151	3,365	-	3,516
Total credit risk	524	14,489	10,268	2,423	27,704

Insurance receivables are not shown above but would be categorised as 'unrated' as a majority of the balance relates to insurance broker debt which falls outside credit rating requirements.

Operational risk

Much of the effect of the syndicate's exposure to operational risks is reflected in the various other risk headings above and is mitigated and managed through the exercise of controls and management actions described above. Additional exposures are in relation to business continuity, i.e. the risk that the ability of the syndicate to continue in business will be affected by events not reflected under other headings, for example the impact of the COVID-19 pandemic, terrorist activity, and in the management of relationships and arrangements with staff and external parties.

Risk management (continued)

In relation to the former, the managing agent maintains a Business Continuity Plan (BCP) which sets out the anticipated risks, assessments of the robustness and sustainability of IT infrastructure and applications, and the alternate arrangements or response procedures in place to mitigate those business continuity risks. The BCP is reviewed and updated regularly. In relation to the latter, the managing agent has established arrangements designed to achieve an appropriate commonality of interest between the syndicate and the individuals concerned, and these arrangements are reviewed periodically. In addition to mitigating the risk of loss of key staff, the managing agent seeks to maintain a sufficient personnel resource with appropriate experience and expertise to reduce the dependence on any one individual so far as is practicably possible.

Operational risk is monitored via regular risk and control assessments and tested for adequate risk mitigation in place through scenario assessments. The insight from these processes is used to quantify operational risk in the internal model. No operational risk events have occurred as a result of work from home arrangements (in light of COVID-19).

Regulatory risk

The managing agent is required to comply, inter alia, with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd’s. Failure to comply with applicable regulations could result in a variety of sanctions, the most extreme being a withdrawal of the right to underwrite business. The managing agent has established a business ethos in which best practice is the required standard for all operations, both in the commercial interests of the business and to ensure regulatory compliance. Management has also put in place appropriate monitoring structures to mitigate the risk of failing to meet this standard. The Coverys at Lloyd’s Executive Committee monitors regulatory developments to ensure the managing agent remains compliant. In addition, the risk management function monitors the position. The internal audit function supports the monitoring process, and directly reports into the Coverys at Lloyd’s Audit Committee, itself comprised of non-executive directors of the managing agent.

Regulatory risk is quantified under operational risk in the internal model.

Solvency risk

The Board sets the risk appetite in line with its strategy and ensures that sufficient capital resources are raised to cover those risks in line with regulatory and Lloyd’s capital setting processes, as per the above. The Coverys at Lloyd’s Risk and Capital Committee monitors risk appetite and tolerances on behalf of the Board.

In the event of extreme adverse claims experience, it is possible that the syndicate may not be able to settle its claim liabilities out of its own funds. In that event, the capital structure underpinning the syndicate is such that any deficits can be called from the syndicate’s capital provider (member) in accordance with Lloyd’s rules. In the event of any member being unable to fulfil its share of such a call, Lloyd’s Central Fund may, at Lloyd’s discretion, be applied to make good any deficits for the benefit of policyholders.

Notes to the annual accounts at 31 December 2020

1. Analysis of underwriting results

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

	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
2020						
Direct insurance:						
Third party liability	34,292	29,676	(24,593)	(12,560)	(768)	(8,246)
Reinsurance insurance:						
Casualty	20,390	18,524	(29,543)	(6,405)	1,491	(15,933)
	54,682	48,200	(54,137)	(18,966)	723	(24,179)
2019						
Direct insurance:						
Third party liability	22,881	16,949	(13,077)	(7,831)	(768)	(4,727)
Reinsurance insurance:						
Casualty	15,776	20,002	(16,373)	(7,647)	(583)	(4,601)
	38,657	36,951	(29,450)	(15,478)	(1,351)	(9,328)

Total commissions payable for direct insurance written in the year amounted to £8,614k (2019: £4,804k).

All premiums were concluded in the United Kingdom.

2. Technical provisions

	2020 £000	2019 £000
Gross technical provisions		
Claims outstanding	81,617	39,864
Provision for unearned premiums	22,577	16,692
	104,194	56,556
Reinsurers' share of technical provisions		
Claims outstanding	3,875	321
Provision for unearned premiums	1,593	943
	5,468	1,264
Net technical provisions		
Claims outstanding	77,742	39,543
Provision for unearned premiums	20,984	15,749
	98,726	55,292

Notes to the annual accounts (continued)

Reconciliation of movements in year

2020	Opening Balance £000	Mvt in tech account £000	Exchange mvt £000	Closing Balance £000
Gross provision for claims	(39,865)	(45,613)	3,861	(81,617)
Reinsurers' share of provision	321	3,803	(249)	3,875
Unearned premium	(16,692)	(6,482)	597	(22,577)
Reinsurers' share of unearned premium	943	722	(72)	1,593
Deferred acquisition costs	4,503	1,624	(135)	5,992
2019				
Gross provision for claims	(14,938)	(26,148)	1,222	(39,864)
Reinsurers' share of provision	561	(226)	(14)	321
Unearned premium	(15,612)	(1,706)	626	(16,692)
Reinsurers' share of unearned premium	64	909	(30)	943
Deferred acquisition costs	4,393	869	(759)	4,503

Claims development triangulations – earned loss reserves on a pure underwriting year basis

Gross Claims development as at 31 December 2020

Pure underwriting year	2018	2019	2020	
Estimate of gross claims incurred	£000	£000	£000	
After one year	14,080	10,967	16,979	
After two years	30,135	30,430		
After three years	41,566			
Less gross claims paid	4,847	2,450	61	
Gross reserves	36,719	27,980	16,918	81,617

Net Claims development as at 31 December 2020

Pure underwriting year	2018	2019	2020	
Estimate of gross claims incurred	£000	£000	£000	
After one year	13,559	10,705	16,158	
After two years	30,086	29,614		
After three years	39,328			
Less net claims paid	4,847	2,450	61	
Net reserves	34,481	27,164	16,097	77,742

Balances have been translated at exchange rates prevailing at 31 December 2020.

Notes to the annual accounts (continued)

3. Net operating expenses

	2020 £000	2019 £000
Brokerage and commissions	11,353	7,865
Other acquisition costs including certain syndicate expenses deemed to relate to procuring business	1,605	2,942
Acquisition costs	12,958	10,807
Change in deferred acquisition costs	(1,624)	(869)
Administration expenses	6,984	4,772
Member's standard personal expenses	647	768
	18,965	15,478

	2020 £000	2019 £000
Administrative expenses include:		
Auditor's remuneration		
Audit of the syndicate annual accounts	79	64
Audit-related assurance services	42	35
Other assurance services provided	70	50
	191	149

4. Employees

The following amounts were recharged to the syndicate in respect of employment costs.

	2020 £000	2019 £000
Wages and salaries	5,233	3,995
Social security costs	711	513
Other pension costs	346	240
	6,290	4,748

Salary and related expenses, where they relate to the cost of procuring business, are treated as acquisition costs and are deferred in line with premiums. The analysis above shows the total before deferral.

The average number of staff recharged to the syndicate by the managing agent's service company during the year was as follows:

	2020	2019
Administration and finance	22	17
Underwriting	5	4
Claims	6	5
	33	26

Notes to the annual accounts (continued)

5. Directors' and Active Underwriters' emoluments

The directors of Coverys at Lloyd's received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2020 £000	2019 £000
Emoluments	451	374

Active Underwriters' emoluments

The Active Underwriters received the following aggregate remuneration charged as other acquisition costs:

Emoluments	382	715

6. Investment Return

Income from investments	509	425
Gains on the realisation of investments	540	113
Losses on the realisation of investments	(38)	(44)
Investment income	1,011	494
Investment expenses and charges	(38)	(24)
Unrealised gains on investments	312	45
Unrealised losses on investments	(31)	(11)
Allocated investment return transferred to the technical account	1,254	504

This can also be presented as follows:

Interest and similar income		
Interest from financial instruments designated at fair value	509	425
Other interest & similar income	852	158
	1,361	583

7. Investment Expenses and Charges

Investment management expenses, including interest	(38)	(24)
Realised losses on investments	(38)	(44)
Unrealised losses on investments	(31)	(11)
	(107)	(79)

Notes to the annual accounts (continued)

8. Other financial investments

	Market value		Cost	
	2020	2019	2020	2019
	£000	£000	£000	£000
Listed securities				
Shares and other variable yield securities	3,731	1,158	3,731	1,158
Debt securities and other fixed income securities	29,566	21,856	29,285	21,822
Participation in investment pools	-	-	-	-
	33,297	23,014	33,016	22,980

Fair value hierarchy

In accordance with FRS 102 paragraph 11.27 the above financial instruments have been classified into three levels to estimate their fair values, with Level 1 being the most reliable. The syndicate has adopted the following definitions of the fair value hierarchy:

Level 1: The unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (ie. developed using market data), for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

	2020	2019
	£000	£000
Level 1	33,121	25,254
Level 2	1,276	439
Level 3	838	174
	35,235	25,867

The Level 3 instrument is being driven by the ‘Syndicate loans to the Central Fund’.

9. Debtors – due within one year

	2020	2019
	£000	£000
Direct arising out of direct insurance operations		
Policyholders	-	-
Intermediaries	18,027	11,163
Direct arising out of reinsurance operations	-	-
	18,027	11,163

10. Other debtors

	2020	2019
	£000	£000
Intercompany	-	811
VAT receivable	75	112
USFIT	15	2
	90	925

Notes to the annual accounts (continued)

11. Creditors

	2020 £000	2019 £000
Creditors arising out of direct insurance operations	-	-
Creditors arising out of reinsurance operations	1,379	553
Accruals and deferred income	1,140	809
	2,519	1,362

12. Regulatory capital requirements

Funds at Lloyd's

Every member of Lloyd's is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are required primarily in case syndicate assets prove insufficient to meet members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of that business. FAL is not hypothecated to any specific syndicate participation by a member, therefore there are no specific funds available to a syndicate which can be precisely identified as its capital.

In addition to the FAL and any additional funds a member may introduce to meet losses, there is a Central Guarantee Fund controlled by Lloyd's which they may utilise to meet any syndicate liabilities that are not met by a member.

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of syndicate 1975 is not disclosed in these financial statements.

Lloyd's capital setting process

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

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

Notes to the annual accounts (continued)

shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (FAL), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates.

There are no funds in syndicate held for this syndicate, accordingly all of the assets less liabilities of the syndicate, as represented by the members' balances reported on the balance sheet represent, resources available to meet members' and Lloyd's capital requirements.

13. Derivatives

During the year, the syndicate has not held or purchased any derivative contracts.

14. Off-balance sheet items

The syndicate has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the syndicate.

15. Related parties

(i) A number of executive directors of Coverys at Lloyd's were also directors and approved persons of other UK subsidiaries within the Coverys Group (Coverys 1975 Underwriting Limited and Coverys MA Services Limited).

(ii) During the year, the syndicate paid £5,700k to Coverys MA Services Limited (CMAS) in relation to management fees and a further £375k in managing agency fees to Coverys at Lloyd's. These amounts have been charged at cost.

(iii) R E McCoy, R D Forster and M Bell are directors of CMAS.

(iv) R E McCoy, M Bell, R D Forster and A G Chopourian are directors of Coverys1975 Underwriting Limited (Coverys 1975), a Lloyd's approved service company coverholder which intends to conduct business on behalf of the syndicate. During the year Coverys 1975 provided £nil of premium income to the syndicate. Coverys 1975's costs are recharged to the syndicate and treated as acquisition costs.

(v) The Syndicate is related to ProMutual Insurance Agency Inc (PMIA) by virtue of common control. PMIA is a service company based in Boston. During the year PMIA placed inwards premium income with the Syndicate on normal commercial business terms, the written premium income was £267k.

(vi) The Syndicate is related to Medical Professional Mutual Insurance Company (MPMIC) by virtue of common control. During the year, the syndicate paid £2.0m to MPMIC in relation to reinsurance premium.

Notes to the annual accounts (continued)

16. Controlling Party of the Managing Agent

The ultimate Parent undertaking is Medical Professional Mutual Insurance Company, a company registered in Massachusetts, USA.

The immediate parent undertaking is Coverys UK Holding Co. Limited, which is registered in England and Wales.

Group Financial Statements are prepared by the immediate parent undertaking, Coverys UK Holding Co. Limited, a company registered in England & Wales, and can be obtained from Coverys UK Holding Co. Limited, 6th Floor, One Creechurch Place, London, EC3A 5AF.