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ERS

The specialist motor insurer

Report and Accounts 2020

Syndicate 218

The specialist
motor insurer

Contents

Directors and administration

MANAGING AGENT

Managing agent	ERS Syndicate Management Limited
Directors	Francois X B Boisseau (Chairman) (appointed 1 May 2020) Amanda J Blanc (Chairman) (resigned 15 July 2020) Patrick H O'Sullivan (Chairman) (resigned 5 March 2020) Nicholas J Addyman Peter Bilsby (appointed 1 December 2020) Robert P Gullett Martin Hall Robert H Johnson Ian D Parker (resigned 30 November 2020) Nicholas C T Pawson Peter N Smith Ignace L G van Waesberghe 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
Registered auditors	PricewaterhouseCoopers LLP

Annual Report and Accounts
2020 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 2020.

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 2018 year of account that closed at 31 December 2020 are included from page 51.

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 and 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 several motor underwriters have exited UK Motor as a class.

2020 Overview

The COVID-19 pandemic significantly impacted business activity during 2020 with uncertainty continuing to remain into 2021. The syndicate reported gross written premiums of £329.2m for the year which was £30.8m below the prior year. Ongoing pandemic restrictions have led to decreased business activity in many segments. Many businesses have decreased fleet sizes or laid-up vehicles and new car sales declined as car dealerships closed, driving lower premium income.

Although written premiums have been adversely affected in the year owing to the ongoing pandemic, the overall underwriting performance has improved significantly compared to the prior year. A major improvement in net loss ratio (by 10.1%) was reported from prior year reflecting the improvements made in risk selection and product mix, but predominantly from the benefits on claims frequencies due to the restrictions imposed to limit the spread of COVID-19 which reduced road and vehicle usage. Claims frequencies fell dramatically during the first lockdown in March and April; and then again to a lesser extent in the second lockdown in November. This offset higher claims costs where the increase in used car prices as new car sales have fallen is driving inflation in the cost of replacing written-off vehicles.

Operationally, the business responded well during the lockdowns with the entire business working remotely from home since March 2020. Thanks to the hard work and commitment of employees and the use of technology, our high standards of customer and broker service were maintained throughout the disruptive period.

Economic overview

The UK economy suffered its biggest slump in more than three centuries, with GDP estimated to have fallen by nearly 10% in 2020. That means that the COVID-19 pandemic has effectively wiped out all growth in the United Kingdom over the last 7 years, returning the economy close to the size it was in 2013. There were, however, signs of recovery towards the end of the year, largely tracking the easing of restrictions imposed to contain the virus. But the third national lockdown in the United Kingdom, imposed on 5 January 2021, is expected to hit the economy further.

Insurance market review

EY predicts the UK motor insurance market to record an underwriting profit in 2020, with a Net Combined Ratio ("NCR") of 93.8%, a 7.2% improvement on 2019's performance. However, the sector is facing headwinds from underlying inflation and the impact of the FCA's pricing review which are expected to squeeze profitability and push it back into the red in 2021 when EY predicts the market NCR to be a loss making 103.7%. *Source: EY Press release dated 23 Nov 2020 (UK motor insurance market to record profit in 2020 due to COVID-19 lockdowns - but loss expected in 2021)*.

Brexit

The UK's exit from the European Union ("EU") on 31 December 2020 has had limited impact on ERS' ability to trade because its business is focused on UK motor insurance. There, however, 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 recent years.

For the small amount of ongoing EU business written, ERS has set up a fronting arrangement with a European-regulated insurer in the Republic of Ireland, under which the business is reinsured entirely back to ERS through a 100% quota share arrangement. For legacy business and reserves from policies written in the EU in the past, ERS has participated in the Lloyd's scheme, involving a Part VII transfer, as described below.

Lloyd's Part VII Transfer

On 30 December 2020, the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and 12 April 2019, transferred all European Economic Area ("EEA") policies written up to 12 April 2019 (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ("LIC"), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby LIC reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the scheme by the High Court, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to LIC, together with cash of amount of $1.4m (£1.0m). On the same date, under the Reinsurance Agreement, LIC reinsured the same risks back, together with an equal amount of cash of $1.4m (£1.0m) and non-cash assets relating to the transferred liabilities. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement and no net impact on the balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the profit and loss account presentation. Outstanding debtor and creditor balances in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

Current year underwriting results for the transferred policies have been reported against the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with LIC.

Financial performance

The 2020 calendar year result was an operating profit of £32.8m (2019: £13.9m profit) which is the largest calendar year profit since change of control to Aquiline in 2013.

Gross written premiums decreased by 8.6% (2019: 9.3% increase) to £329.2m (2019: £360.0m) in a challenging trading year as pandemic-related restrictions and national lockdowns caused reduced demand across most segments; and businesses reducing fleet sizes or laying up vehicles amidst reduced car sales.

The combined operating ratio for the year was 91.9% (2019: 99.7%). The net claims ratio improved to 58.7% (2019: 68.8%) from the previous year and is largely explained by claims frequencies that fell dramatically during the first lockdown in March and April and then again to a lesser extent in the second lockdown in November. The expense ratio has increased by 2.4% to 19.1% (2019: 16.6%) from the reduced written premiums and a profit commission payable to the Managing Agent, which has been recognised this year for the first time since 2007.

Despite difficult market conditions prevailing for most part of the year, ERS' investment portfolio performed reasonably well generating a positive return of 1.7% (2019: 3.4%) for the year.

Key performance indicators
Syndicate 218's key financial indicators are as follows:

Financial Year £'000	2020	2019	2018	2017*	2016
Gross Written Premium	329,196	359,961	329,398	376,116	406,103
Net Earned Premium	311,932	319,889	322,683	386,961	377,790
Profit/(loss) for financial year	32,819	13,892	11,122	(12,173)	(21,743)
Claims Ratio**	58.7%	68.8%	63.7%	76.9%	79.2%
Commission Ratio	14.1%	14.3%	15.2%	15.2%	15.6%
Expense Ratio	19.1%	16.6%	17.2%	12.8%	13.7%
Combined Operating Ratio	91.9%	99.7%	96.1%	104.9%	108.5%

* The 2017 net earned premium was reduced by £63.5m as a consequence of the reinsurance with TPRe. This reduction has been added back in the 2017 key performance indicators to aid comparison.

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

Reinsurance
The syndicate purchases motor excess of loss ("XoL") 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 up to £1.0m for policies incepted in 2020 and 2010; up to £2.5m in respect of policies incepted during 2014 to 2019; up to £3.5m in respect of policies incepted during 2012 and 2013;and up to £2.0m in respect of policies incepted during 2011.

As a second line of defense against the adverse accumulation of losses on both the prior year reserves and the future accident year (when they are incurred), the Syndicate also has a reinsurance arrangement in place with Third Point Reinsurance ("TPRe"). The motor XoL programme operates before the TPRe arrangement i.e. only losses net of XoL recoveries accumulate towards the TPRe contract retentions.

The 2019 TPRe reinsurance coverage was commuted and replaced with a new contract bound effective on 30 June 2020. The new reinsurance contract continues to protect £122.0m of reserves across the 2010 to 2020 underwriting and accident years, with a stop loss to protect the 2020 and 2021 underwriting years in the 2021 accident year.

Further details on the arrangement with TPRe are disclosed in the reinsurance arrangements section within Note 5(a).

All purchases of reinsurance are approved, in advance, by the ERS SML board of directors.

Review of the business

Underwriting outlook
The 2020 underwriting year was unprecedented due to the impact of the COVID-19 virus. It impacted many of our customers' businesses, leading them to consider ways to control costs and to significant changes in driving habits. We were able to accommodate and support our customers, for example through reduced coverage for laid up vehicles or waiving excesses for key workers, which enabled cover to remain in place, but this has reduced overall premium levels.

The changes in traffic levels reduced the frequency of claims to positively impact the loss ratio result, tempered by worsening severity though, of both the 2019 and 2020 underwriting years. The impact of COVID-19 has varied considerably across our products and with improvements in the underlying performance the loss ratios for both years will produce excellent results.

ERS targets market segments that are less commoditised and where the specialist knowledge of its underwriting and claims teams are factors in the product's performance and profitability. The business is structured around these target sectors as the competitive environment and the requirements to be successful differ in each product, and the respective product managers are able to better focus on understanding them and reacting accordingly.

Business written during 2019 and 2020 benefitted from investments made to improve risk selection and pricing. Insurer Hosted Pricing ("IHP") technology has been implemented across many products and 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. Premium levels also benefitted from ERS' eTrade solution that enables brokers to access many of our other specialist products online.

The UK motor market started the year targeting rate increases to cover costs from ongoing above trend motor claims inflation, increases in excess of loss reinsurance costs and increases in levies from the Motor Insurers' Bureau. This was evident in the period leading up to the first lockdown in March, but thereafter with an expectation of reduced claims traffic in private car we observed rate reductions beginning to be implemented in the market. In general, we adopted the approach of maintaining planned rate increases with the view that reduction in frequency was temporary and underlying claims inflation continued.

The outlook for 2021 for the UK motor insurance market is very uncertain, but we expect to remain competitive. The continued impact of COVID-19 and easing of lockdowns are hard to predict with further uncertainties relating to the extent of the UK recession, Brexit, the timing of the whiplash reforms and the changing practices from the FCA General Pricing Practices review. We are well positioned to react swiftly as these factors become clearer with a focus on profitability.

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 a direct insurer. Following investments in our proposition over recent years, 2020 has delivered strong underlying profitable growth as many of our MGA competitors were required to increase prices which facilitated more risks coming to market. We recruited additional experienced underwriters into the team to maintain service levels to brokers.

The 2020 loss ratio is much improved over the prior year with some benefit from reduced traffic, but this account is biased towards 'on farm' activity and shows strong underlying performance.

The plan for 2021 is to continue 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 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.

Our Prestige offering is targeting High Net Worth individuals and incorporates a specialism for supercars and professional sports and entertainment occupations. During 2020, Prestige continued to build its reputation in the market which led to an increase in premium income.

Enthusiast continues to deliver good underwriting results. The use of the IHP technology has enabled wider distribution, improved efficiency and more responsive pricing. In 2021, Enthusiast will look 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. Whilst loss ratios have been acceptable, this product is traded manually and hence carries a high expense ratio. We made the decision to cease writing this business on a manual basis at the end of 2020 and we will be expanding the risk appetite of our Retail Non-Standard car product to enable elements of this account to be traded electronically in 2021.

Schemes and Affinities targets niche customer groups who find it challenging to purchase car insurance through normal distribution channels. We have reshaped the mix of schemes in 2020 which has delivered static premium levels but a more profitable mix. This includes our first product for customers who require short-term insurance cover.

The priority for the Bespoke class in 2021 is to maintain profitability through good risk selection and pricing discipline and improve the efficiency of trading by increasing the volume of electronic business.

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

As a result of COVID-19, we were able to assist customers with requests for changes in cover such as allowing taxi drivers to take on courier or fast food delivery work to supplement their incomes. We did see a higher number of cancellations and requests for laid-up cover which we were able to accommodate.

The loss ratio for 2020 improved on prior years' as a result of improved pricing and lower vehicle usage as result of COVID-19. The use of IHP technology has improved the responsiveness of pricing across most of the commercial products. Focus on profitability continues by maintaining pricing discipline and leveraging additional data sources and analytical methods to more accurately assess risk. In the Taxi market there have been several exits of competitors, which has placed a greater number of risks into the market. Whilst maintaining the strength of our pricing we have picked up a share of this additional business to grow the account.

ERS will look for opportunities to grow in 2021 by further leveraging the improvements in our eTrade platform where brokers are able to access our 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 2020, Fleet was heavily impacted by COVID-19. Within our passenger transport products which has a focus on bus and coach risks often linked to the education sector, we saw many requests for laid-up cover, which we were able to accommodate. This had the effect of maintaining cover for customers but at a reduced premium.

The underlying rating environment has been positive, especially in the first half of the year, however the market became more competitive as volumes reduced later in the year. We have strong management of the renewal portfolio, which was underpinned by a "Protect, Improve and Lose" strategy to optimise rate increases and risk profile improvements. The loss ratio for the year was below our expectations as result of strong rating and a positive impact from COVID-19 reduced exposures.

In 2021, ERS will continue to improve its underwriting capability, trading performance and profitability by building on the investments made in data and pricing analytics with the inclusion of data enrichment in our risk selection and pricing to remain agile in what is expected to remain a competitive fleet market as volumes reduce due to recessionary and extended COVID-19 impacts.

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 2020. The focus on classic bikes supports ERS' relationships with many of our core classic car brokers. This will remain the strategy in 2021 and we expect the account to remain small but profitable.

Motor Breakdown
During 2020, the Motor Breakdown portfolio was static in premium, however it did see the launch of an improved eTrade proposition for brokers. Improvements in performance data and management information enable more targeted pricing changes to be applied to improve the underlying profitability of the account.

The impact of COVID-19 was seen in reductions in both the number of trips and the length of trips, both positively impacting the loss ratio.

In 2021, ERS will make further improvements to the online distribution platform and market the product to support growth in this channel

Non-Standard Retail
The Non-Standard Retail class targets private cars and vans with risk characteristics that are less standard in nature. It distributes the product electronically with about half the premium being sourced by price comparison websites via two brokers.

The product uses internal and external data to assess, validate and price risk, and has incorporated data science and machine learning modules to support its pricing algorithm.

In 2021, 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. It is anticipated the private car market will be very competitive in 2021, so our expectations are that premium levels will be constant with an increased bias to renewal business. We will implement new rate deployment software which will enable the quicker delivery of more sophisticated price changes.

Other matters

Capital

For the 2020 year of account, the largest participant on Syndicate 218 was ERS Corporate Member Limited ("ERS CML") with a participation of 77.9%. The remaining capacity is owned by non-aligned names.

	Year of Account					
£'000	2021	2020	2019	2018	2017	2016
Syndicate Capacity	480,000	480,000	479,575	479,598	478,865	359,462
ERS CML Participation	373,722	373,722	324,203	323,892	292,860	219,361
ERS CML Participation	77.9%	77.9%	67.6%	67.5%	61.2%	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

The start of the year saw financial markets react sharply and adversely following news of the spread of the pandemic. Worries about liquidity and sector exposure fueled drops in both equity prices and bond yields as investors sought the relative safety of the latter, with falls in bond prices also caused by some holders having an urgent need to liquidate some holdings.

However, after positive news on COVID-19 vaccines and with the end of economic uncertainties associated with Brexit and US elections, most markets ended up in a positive place by the end of 2020. Accordingly, the Syndicate reported investment returns of £7.6m (2019: £13.0m), which includes TPRe return of £2.7m for the year, equivalent to a 1.7% (2019: 3.4%) rate of return for financial year 2020. The TPRe return was made in respect of the collateralised assets (note 5) which are included in reinsurers' share of claims outstanding.

The performance of the Syndicate's investments in financial year 2020 was largely driven by the following developments in the year:

- Following the start of the pandemic, the first quarter of 2020 reported negative returns of £5.0m (minus 1.3%) as investments fell across all developed markets due to the COVID-19 spread and countries went into lockdown to try to contain the outbreak. Equities suffered steep declines, credit spreads widened, and government bond yields fell;
- The second and third quarters saw return of positive returns of £9.0m and £1.5m respectively with early signs of economic recovery buoyed by the release in general business activity. Equities gained amid hopes for a COVID-19 vaccine, signs of continued economic recovery and policy support measures for businesses. Government bond yields also rose as risk appetite generally recovered due to the improving global growth outlook. Also, during the third quarter, the Conning portfolio benefitted from diversifying into the new collateralised loan obligations ("CLOs") with higher yields being achieved in the medium term;

- In anticipation of positive news on COVID-19 vaccines and the US elections in December, the cyclical segments of the market began to recover in the fourth quarter of 2020. Global equity markets continued to rally for the third consecutive quarter. Further, the Brexit Bill passed through Parliament on 31 December helping Sterling to continue its gains against the US dollar amidst growing optimism that the UK can overcome the pandemic and move on from Brexit. The Syndicate's investments, therefore, generated positive returns of £2.1m for a third consecutive quarter of the year.
- In addition, following the Board's decision to de-risk the portfolio, the assets in the Syz Oyster Absolute Return fund were sold at a profit in four tranches during June. The Oyster fund investment returned a cumulative gain of £1.0m (1.1%) up to the redemption date.

Syndicate's investments decreased to £258.3m as at 31 December 2020 from £275.0m at 31 December 2019 excluding the collateralised assets of £122.0m deposited with TPRe. This change in investment assets of £16.7m since prior year is driven by the redemption of Syz portfolio in June 2020 of £117.5m; and offset by in-year reinvestments of £96.9m, and positive returns of £4.9m for the year excluding TPRe return of £2.7m.

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 2020, 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 2018 year of account closed with a loss of 2.4% showing a small worsening over the midpoint forecast at the end of 2019 of 1.5%.

As a percentage of underwriting capacity, the midpoint forecast to ultimate for the 2019 year of account is a profit of 4.5% with a range of best estimate profit of 9.5% and a worst estimate loss of 0.5%.

2021 Outlook

GWP is expected to grow in 2021 amidst hopes of a successful vaccine and a return to 'normal' and leading to a recovery of global markets. Growth in premiums is also anticipated following increased use of electronic distribution channels and a widening footprint and risk appetite following improvements in pricing sophistication.

Overall, focus in 2021 therefore remains on profitability over volume, with the loss ratio benefiting from rate. Retail Non-Standard becoming more of a renewals book with lower average loss ratios, and benefits from data enrichment and pricing sophistication. In addition, scale cost efficiencies will be realised by the servicing of forecasted business volumes using the current operational base, and through process simplification and transformation.

However, several uncertainties remain within the macro-economy, with the most relevant to ERS being:

- emergence of the pandemic created unprecedented worldwide disruption and uncertainty, with the extent of the recovery to be seen remaining unknown. Although vehicle usage will increase into 2021, it is not yet known how society will adapt in the longer-term in relation to commuting, working from home and on-line shopping;
- the whiplash reforms could pose new pricing challenges to motor insurers once implemented later this year. The reforms are expected to reduce both legal costs associated with whiplash claims and overall levels of compensation;
- potential supply chain impacts following the terms and conditions of any post Brexit trade deals, and the restrictions of goods and trade based on escalating political tensions; and
- currently low levels of interest rates are expected to continue into 2021. As the majority of the syndicate's investments comprise debt securities and other fixed income securities, the fair value of these securities is inversely correlated to interest rate movements. Hence, if interest rates fall, the fair value of the syndicate's securities would tend to rise and vice versa.

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 RMF 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, Governance 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 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.

Assurance for the IM comes from the Validation activity that is led by the Risk Team with the support of Internal Audit and External Consultants. This coincides with the submissions made for the following years Syndicate Business Forecast ("SBF") and is submitted to Lloyd's following approval from the ERS SML Board.

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 (an interim ORSA will be issued where deemed appropriate).

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 a variety of exposures, the geographical concentration of motor risks is not 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 are 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 (£1.0m for business written in 2020 onwards) with unlimited sideways cover, as well as reinsurance to protect £122.0m of reserves across the 2010 to 2020 underwriting and accident years, with a stop loss to protect the 2020 and 2021 underwriting years in the 2021 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 (though the Republic of Ireland business will be bound and reinsured in Euros).

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;
- people management; including absenteeism, motivation and engagement; 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:

Francois X Bernard Boisseau (Chairman)
Nicholas J Addyman*
Peter Bilsby
Robert P Gullett*
Martin Hall*
Robert H Johnson
Nicholas C T Pawson*#
Peter N Smith
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 2021.

By order of the Board:

Peter Bilsby
Director

4 March 2021

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 audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 218'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 profit 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 Accounts 2020 (the "Annual Report"), which comprise: the Balance Sheet – Assets and the Balance Sheet – Liabilities as at 31 December 2020; the Statement of Comprehensive Income – Technical Account for General Business, the Statement of Comprehensive Income – Non-Technical Account, the Cash Flow Statement, and the Statement of Changes in Members' Balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

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.

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 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 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.

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 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 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, 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.

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 posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed included:

- Discussions with the Board, management, internal audit and the syndicate's compliance function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Managing Agent's whistleblowing helpline and management's investigation of such matters;
- Reviewing relevant meeting minutes including those of the Board, the Audit, Risk and Compliance Committee, the Risk Management Committee, the Reserving Committee and correspondence with regulatory authorities, including Lloyd's, the Financial Conduct Authority and the Prudential Regulatory Authority;

- Testing and challenging, where appropriate, the assumptions and judgements made by management in their significant accounting estimates, for example, in relation to the valuation of the claims incurred but not reported included within claims outstanding;
- Reviewing the impact of any significant contracts entered into in the year;
- Identifying and testing journal entries, in particular, any journals relating to revenue, any journal entries posted with unusual account combinations, posted by senior management or unusually backdated; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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 members as a body 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.

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

4 March 2021

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Statement of comprehensive income – technical account for general business

	Note	2020 £000	2019 £000
Earned premiums, net of reinsurance			
Gross premiums written	6	**329,196**	359,961
Outward reinsurance premiums		**(39,229)**	(25,683)
Net premiums written		**289,967**	334,278
Change in the provision for unearned premiums			
Gross amount	20	**15,605**	(15,329)
Reinsurers' share	20	**6,360**	939
Change in the net provision for unearned premiums		**21,965**	(14,390)
Earned premiums, net of reinsurance		**311,932**	319,888
Allocated investment return transferred from non-technical account	11	**7,611**	13,033
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	20	**(223,832)**	(249,626)
Reinsurers' share	20	**15,030**	12,837
Net claims paid		**(208,802)**	(236,789)
Change in the provision for claims			
Gross amount	20	**14,811**	13,306
Reinsurers' share	20	**15,783**	12,992
Change in the net provision for claims		**30,594**	26,298
Claims incurred, net of reinsurance		**(178,208)**	(210,491)
Changes in other technical provisions, net of reinsurance	20	**(4,881)**	(9,749)
Net operating expenses	8	**(103,666)**	(98,740)
Balance on the technical account for general business		**32,788**	13,941

All amounts relate to continuing operations.

The notes on pages 26 to 49 form an integral part of these annual accounts.

Statement of comprehensive income – non-technical account

	Note	2020 £000	2019 £000
Balance on the technical account for general business		**32,788**	13,941
Investment return			
Investment income	11	**7,627**	6,494
Unrealised gains on investments	11	**6,772**	11,605
Investment expenses and charges	11	**(482)**	(732)
Unrealised losses on investments	11	**(6,306)**	(4,334)
Allocated investment return transferred to technical account for general business	11	**(7,611)**	(13,033)
		–	–
Other income	12	**31**	–
Other charges, including value adjustments	12	**–**	(49)
		31	(49)
Profit for the financial year		**32,819**	13,892

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 49 form an integral part of these annual accounts.

Balance sheet – assets

	Note	2020 £000	2019 £000
Investments			
Other financial investments	5(i)(p), 13	**258,329**	274,996
Reinsurers' share of technical provisions			
Provision for unearned premiums	20	**18,903**	12,543
Claims outstanding	5(i), 19, 20	**331,016**	315,233
Other technical provisions	20	**–**	4,881
		349,919	332,657
Debtors			
Debtors arising out of direct insurance operations	5(i), 14	**53,813**	55,400
Debtors arising out of reinsurance operations	5(i)	**3,162**	2,512
Other debtors	15	**37,663**	38,629
		94,638	96,541
Other assets			
Cash at bank and in hand	5(i)	**35,445**	42,682
Overseas deposits	5(i)(p), 16	**1,459**	1,358
		36,904	44,040
Prepayments and accrued income			
Accrued interest and rent		**1,450**	1,397
Deferred acquisition costs	17	**33,887**	37,157
Other prepayments and accrued income	18	**7,853**	7,026
		43,190	45,580
Total assets	5(k)	**782,980**	793,814

The notes on pages 26 to 49 form an integral part of these annual accounts.

Balance sheet – liabilities

	Note	2020 £000	2019 £000
Members' balances		**10,985**	5,942
Technical provisions			
Provision for unearned premiums	20	**159,967**	175,572
Claims outstanding	5(e)(o), 19, 20	**562,962**	577,773
		722,929	753,345
Creditors			
Creditors arising out of direct insurance operation	5(o), 21	**2,923**	838
Creditors arising out of reinsurance operations	5(o)	**5,697**	3,941
Other creditors including taxation and social security	5(o), 22	**30,312**	23,423
		38,932	28,202
Accruals and deferred income	5(o)	**10,134**	6,325
Total liabilities	5(k)	**782,980**	793,814

The notes on pages 26 to 49 form an integral part of these annual accounts.

The Syndicate annual accounts on pages 20 to 25 were approved by the Board on 2 March 2021 and signed on behalf of the Syndicate's managing agent by:

Ryan Warren
Finance Director

4 March 2021

Statement of changes in members' balances

	2020 £000	2019 £000
Members' balances brought forward at the beginning of the year	**5,942**	(33,082)
Profit for the financial year	**32,819**	13,892
(Payment)/collection of the result from members' personal reserve funds:		
2017 year of account	**(27,308)**	–
2016 year of account	**–**	25,862
	11,453	6,672
Members' agents fees paid in year	**(468)**	(730)
Members' balances carried forward at the end of the year	**10,985**	5,942

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 49 form an integral part of these annual accounts.

Cash flow statement

	Note	2020 £000	2019 £000
Net cash (outflow)/inflow from operating activities	23	**(3,740)**	10,359
Cash flow from investing activities			
Purchase of equity and debt instruments		**(160,554)**	(114,702)
Sale of equity and debt instruments		**182,484**	86,237
Investment income received net of expenses paid		**6,900**	5,888
Other	24	**(4,551)**	(1,223)
Net cash generated/(used) in investing activities		**24,279**	(23,800)
Cash flow from financing activities			
Transfer (to)/from members in respect of underwriting participations		**(27,308)**	25,862
Members' agents fees		**(468)**	(730)
Net cash (used)/generated in financing activities		**(27,776)**	25,132
Net (decrease)/increase in cash at bank and in hand		**(7,237)**	11,691
Cash and cash equivalents at the beginning of the year		**42,682**	30,991
Cash and cash equivalents at the end of the year		**35,445**	42,682
Cash and cash equivalents consist of:			
Cash at bank and in hand		**35,445**	42,682
Cash and cash equivalents		**35,445**	42,682

The notes on pages 26 to 49 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 and on collateralised assets held under the TPRe contract.

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 the profit on a year of account basis subject to the operating of a two-year deficit clause and is charged to the Syndicate as incurred.

(xvi) Commutation & reinstatement of reinsurance contracts

When a reinsurance contract is commuted and reinstated we take into consideration the substance of the transactions. Where a contract is commuted and immediately reinstated under similar terms, such that the commercial rationale remains the same, it is treated as a modification of the existing contract and not a cancellation and reinstatement. This is the case for the TPRe contract (refer to note 5 (a) for further details).

(xvii) Deposit components of reinsurance contracts

Where a deposit component exists in a reinsurance contract it is not unbundled and is recorded as part of the reinsurance assets. Any interest payable on the deposit component is accrued annually at the effective interest rate.

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;

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

- 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.

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% (2019: 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 ("XoL") 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 up to £1.0m for policies incepted in 2020 and 2010; up to £2.5m in respect of policies incepted during 2014 to 2019; up to £3.5m in respect of policies incepted during 2012 and 2013; and up to £2.0m in respect of policies incepted during 2011.

As a second line of defense against the adverse accumulation of losses on both the prior year reserves and the future accident year (when they are incurred), the Syndicate also has a reinsurance arrangement in place with Third Point Reinsurance ("TPRe"). The motor XoL programme operates before the TPRe arrangement i.e. only losses net of XoL recoveries accumulate towards the TPRe contract retentions.

A premium of £58.5m was paid on inception of the contract in 2015 and a further £63.5m when the contract was first commuted and reinstated in 2017, making a total of £122m. The cover on the TPRe contract is arranged in two Sections, namely A and B; and section A of the contract is then split into two layers, namely A1 and A2. The two layers of Section A provide aggregate excess reinsurance protection on the prior accident years whilst Section B provides protection on the future accident year. The £122m of reinsurance premium is held in an experience account as a fully collateralised asset. Recoveries under the contract are first deducted from the experience account. The balance of the experience account attracts a guaranteed annual interest income of 2.25% until the year 2023 which is recognised in the Syndicate accounts on an accruals basis. For calendar year 2020, an amount of £2.7m in interest income was recognised on the collateralised balance held in the TPRe experience account. A reinsurance margin of £4.5m was paid to TPRe in 2020 and is deferred in line with the risk profile of the contract until 30 June 2023.

Section A1, the experience account, provides £122m of cover, attaching at the Net of XoL Best Estimate Reserves less £122m with the top of the layer equal to the Net of XoL Best Estimate Reserves. If best estimate reserve payments do not exceed the total of the experience account, the remaining balance is returned under the commutation clause of the contract, thus there is no insurance risk transfer on Section A1. Section A2 and B do have insurance risk transfer and function as Aggregate Excess Reinsurance whereby recoveries can be made if losses exceed the retention or attachment points. Each of these sections have their own limits of £40m and £35m respectively and there is an aggregate limit across all sections which limits overall recoveries to £162m. Where the booked best estimate of reserves falls below the contractual best estimate, the reinsurance asset is still recoverable. As such the recoveries over the booked best estimate amount are recorded as reinsurers share of technical reserves.

The favourable reserves movements in the recent years have meant that although there has not been sufficiently adverse aggregate experience to trigger a recovery, ERS have continued to benefit from the guaranteed interest payments. It has also been noted that there have been occasions in ERS's historical performance that would have triggered recoveries had a similar reinsurance cover been in place.

Each year the contract performance is reviewed. The review considers both the claims development affecting the likelihood of the contract retentions and limits being triggered and the need to include cover for the next accident year's exposure. During calendar year 2020, the 2019 TPRe reinsurance coverage was commuted and replaced with a new contract effective on 30 June 2020. The renewed reinsurance contract continues to protect against adverse aggregate experience of the reserves across the 2010 to 2020 accident years, via Sections A1 and A2. It also provides protection against adverse experience from the 2021 accident year liabilities via Section B.

5. Management of insurance and financial risk (continued)

(a) Insurance risk management and control (continued)

The TPRe contract is accounted for as an insurance contract due to the transfer of insurance risk. Risk transfer is achieved in Sections A2 and B of the contract. This is evidenced by the probability of reaching the retention levels on both of these sections being greater than 0.5%. In the 2021 Solvency Capital Requirement ("SCR") submitted to Lloyds in September 2020 the probability of breaching the attachment points and making a recovery on these sections was 6.9% and 5.8% respectively for Sections A2 and B. Risk transfer is also evidenced by the impact of the 2020 contract on the 2021 SCR which is reduced by £32.0m (2020 SCR: £29.2m) when compared to the SCR calculated without the TPRe protection present. The impact of the TPRe contract can also be seen by the improved proportion of diversification within the SCR with the TPRe contract. It provides protection for insurance risk, it decreases its standalone amount resulting in a better balance between the risk categories and diversification as a percentage of total risk increases from 32% to 37%.

All purchases of reinsurance are approved, in advance, by the ERS SML board of directors.

Although the syndicate has reinsurance arrangements in place to reduce its 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 provision.

(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 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 results of each method develops and evidences the understanding of the underlying claims estimation processes.

5. Management of insurance and financial risk (continued)

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

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% (2019: 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 2020 is 9.6% (31 December 2019: 2.9%) 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.
- The impact of COVID-19 on frequencies and severities, with lockdown measures reducing road usage. Severities could be impacted from suppliers delays and late reported claims from third parties.
- Brexit: There remains a risk to the supply chain for car manufacturers and car parts suppliers, which may further exacerbate the claims inflation. External factors could continue to increase claim severities, such as the depreciation of the pound affecting the prices of imported parts.

(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% (2019: 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% (2019: 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% (2019: 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% (2019: 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 methods most commonly used are the Chain-ladder, Bornhuetter-Ferguson, Cape Cod methods and frequency/severity 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.

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. It is a dynamic approach to estimating the initial a priori loss estimate by having the ability to adjust for trends seen in historical experience and seasonality.

The Cape Cod method is very similar to the Bornhuetter-Ferguson method, involving estimating the initial a priori loss estimate by adjusting for trends seen in historical experience. Frequency/severity methods are used where historic data may be sparse or where there are low frequency and high severity characteristics such as large losses. The technique involves projecting a frequency and severity view separately using the above methods and combining to project an ultimate estimate. This method has the benefit of projecting at a more granular level to assess underlying drivers in trends.

5. Management of insurance and financial risk (continued)

(d) Development of claims provision

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.

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	2020 £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	118.1	
One year later	4,032.5	406.8	297.6	283.8	277.6	309.2	358.4	250.1	232.1	234.8		
Two years later	4,041.1	393.0	285.7	281.3	304.5	311.4	352.1	224.3	230.6			
Three years later	4,084.2	391.9	278.8	290.0	296.2	288.0	335.5	224.1				
Four years later	4,097.6	390.0	286.8	287.6	268.1	291.9	325.3					
Five years later	4,093.5	403.1	276.0	266.5	264.0	294.2						
Six years later	4,125.9	392.8	270.4	265.7	254.8							
Seven years later	4,113.6	386.6	270.6	259.7								
Eight years later	4,088.3	387.4	275.3									
Nine years later	4,101.7	387.6										
Ten years or more later	4,097.1											
Current estimate of cumulative claims	4,097.1	387.6	275.3	259.7	254.8	294.2	325.3	224.1	230.6	234.8	118.1	6,701.6
Cumulative payments to date	4,024.4	371.4	262.2	249.1	242.3	246.7	254.2	180.0	152.0	123.4	32.9	6,138.7
Total gross provision included in the balance sheet	**72.6**	**16.2**	**13.0**	**10.6**	**12.5**	**47.5**	**71.1**	**44.2**	**78.6**	**111.5**	**85.2**	**563.0**

5. Management of insurance and financial risk (continued)

(f) Analysis of claims development - net of reinsurance

Underwriting year	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £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	118.1	105.0	117.5	86.4	
One year later	3,602.1	383.4	289.3	263.6	260.1	275.4	302.6	232.2	212.3	207.6		
Two years later	3,588.9	372.3	281.2	254.4	263.1	280.4	305.1	219.9	210.5			
Three years later	3,606.6	369.0	266.8	248.8	256.3	275.5	296.0	219.4				
Four years later	3,596.0	365.4	259.9	249.8	251.5	276.2	290.8					
Five years later	3,594.8	360.1	258.1	247.1	252.0	274.5						
Six years later	3,592.3	359.5	258.5	246.9	250.9							
Seven years later	3,585.7	362.9	259.1	244.9								
Eight years later	3,587.9	363.3	263.7									
Nine years Later	3,588.9	363.5										
Ten years or more later	3,590.0											
Current estimate of cumulative claims	3,590.0	363.5	263.7	244.9	250.9	274.5	290.8	219.4	210.5	207.6	86.4	6,002.2
Cumulative payments to date	3,581.1	356.7	253.1	234.8	241.1	246.6	248.3	178.4	151.9	123.4	32.9	5,648.3
Third Point Reinsurance	1.0	2.0	2.9	3.2	3.6	9.4	14.4	13.0	18.7	31.2	22.6	122.0
Total net provision included in the balance sheet	**7.9**	**4.8**	**7.7**	**6.9**	**6.2**	**18.5**	**28.1**	**28.0**	**39.9**	**53.0**	**30.9**	**231.9**

* 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 32. 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 £1.4m (2019: £1.5m) 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 £5.8m (2019: £6.1m) 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.

5. Management of insurance and financial risk (continued)

(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.
- 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.

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 up to £1.0m for policies incepted in 2020 and 2010; up to £2.5m in respect of policies incepted during 2014 to 2019; up to £3.5m in respect of policies incepted during 2012 and 2013; and up to £2.0m in respect of policies incepted during 2011.

The 2019 TPRe reinsurance coverage was commuted and replaced with a new contract bound effective on 30 June 2020. The new reinsurance contract continues to protect £122.0m of reserves across the 2010 to 2020 underwriting and accident years, with a stop loss to protect the 2020 and 2021 underwriting years in the 2021 accident year.

Further details on the arrangement with TPRe are disclosed in the reinsurance arrangements section within Note 5(a).

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:

2020	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Asset classes not subject to rating £000	Total £000
Financial investments and overseas deposits	59,315	55,045	105,931	39,292	–	205	259,788
Insurance debtors	22,653	9,955	7,014	8,001	5,170	1,020	53,813
Reinsurance debtors	–	1,611	1,551	–	–	–	3,162
Reinsurers' share of claims outstanding	–	116,647	214,369	–	–	–	331,016
Cash at bank and in hand	–	1,132	32,770	–	–	1,543	35,445
Total	**81,968**	**184,390**	**361,635**	**47,293**	**5,170**	**2,768**	**683,224**

5. Management of insurance and financial risk (continued)

(i) Credit risk (continued)

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

Financial investments above includes overseas deposits of £1,459k (2019: £1,358k).

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.

2020	**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	**44,714**	**8,781**	**293**	**132**	**710**	**(817)**	**53,813**
Reinsurance debtors	**2,708**	**–**	**157**	**138**	**169**	**(10)**	**3,162**
Reinsurers' share of claims outstanding	**331,865**	**–**	**–**	**–**	**–**	**(849)**	**331,016**
Total	**379,287**	**8,781**	**450**	**270**	**879**	**(1,676)**	**387,991**

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

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 99% 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:

2020	**GBP £000**	**USD £000**	**CAD £000**	**EUR £000**	**Other £000**	**Total £000**
Total assets	**779,443**	**293**	**2,201**	**1,043**	**–**	**782,980**
Total liabilities and members' balances	**(783,586)**	**(34)**	**(38)**	**678**	**–**	**(782,980)**
Total	**(4,143)**	**259**	**2,163**	**1,721**	**–**	**–**

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	–	–

(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. Further details on fair value levelling of assets is reported in Note 5 (p).

(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.

	2020 increase/(decrease) on profit and net assets £000	2019 increase/(decrease) on profit and net assets £000
Interest rate risk		
50 basis points increase in yield curve	**(1,660)**	(2,372)
50 basis points decrease in yield curve	**1,660**	2,466
Price risk		
5% increase in stock market prices	**–**	64
5% decrease in stock market prices	**–**	(86)

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

Following the Board's approval, the entire Syz Oyster Absolute Return fund was divested in June 2020.

(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.

2020	**No stated maturity £000**	**0-1 year £000**	**1-3 years £000**	**3-5 years £000**	**> 5 years £000**	**Total £000**
Gross claims outstanding	**–**	**(177,280)**	**(182,978)**	**(73,388)**	**(129,316)**	**(562,962)**
Insurance creditors	**–**	**(2,923)**	**–**	**–**	**–**	**(2,923)**
Reinsurance creditors	**–**	**(5,697)**	**–**	**–**	**–**	**(5,697)**
Other creditors	**–**	**(30,312)**	**–**	**–**	**–**	**(30,312)**
Accruals and deferred income	**–**	**(10,134)**	**–**	**–**	**–**	**(10,134)**
Total	**–**	**(226,346)**	**(182,978)**	**(73,388)**	**(129,316)**	**(612,028)**

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)

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.

2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares, other variable yield securities and units in unit trusts	–	–	5,980	5,980
Debt securities and other fixed income securities	–	251,073	–	251,073
Participation in investment pools	–	409	–	409
Overseas deposits	–	2,326	–	2,326
Total	–	253,808	5,980	259,788

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

Overseas deposits comprises of other financial investments of £867k (2019: £883k), and cash and cash equivalents of £1,459k (2019: £1,358k).

Following the Board's approval, the entire Syz Oyster Absolute Return fund was divested in June 2020. No Level 1 securities were therefore held at 31 December 2020.

Level 3 investment comprises of Syndicate loan balance as at 31 December 2020. A total of £4.6m was paid to Lloyd's in two tranches of £1.4m and £3.2m in June and November 2020 respectively.

(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.

2020	**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	**–**	**–**	**(383)**	**–**	**40**	**(343)**
Motor (third party liability)	**–**	**–**	**–**	**–**	**–**	**–**
Motor (other classes)	**318,869**	**333,139**	**(202,025)**	**(98,138)**	**(7,914)**	**25,062**
Fire and other damage to property	**–**	**–**	**42**	**(15)**	**(42)**	**(15)**
Other	**10,327**	**11,662**	**(7,079)**	**(4,265)**	**(49)**	**269**
	329,196	**344,801**	**(209,445)**	**(102,418)**	**(7,965)**	**24,973**
Reinsurance accepted	**–**	**–**	**424**	**(43)**	**(177)**	**204**
Total	**329,196**	**344,801**	**(209,021)**	**(102,461)**	**(8,142)**	**25,177**
Investment return						**7,611**
Technical account balance						**32,788**

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

On 30 December 2020, the Syndicate entered into two separate transactions with LIC: (i) the Part VII transfer of the legacy EEA business and insurance liabilities to LIC; and (ii) the purchase of a 100% quota share reinsurance policy by LIC to cover these liabilities.

The first transaction (the Part VII transfer) involves the transfer of insurance liabilities and assets related to the transferring book, together with equal cash. As such, the transfer is at net nil value and has no consideration.

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

	2020 £000	2019 £000
Net claims release	**6,707**	6,854
Risk margin reserve release	**7,365**	7,772
Loss adjustment expense reserve release	**4,091**	2,702
Total	**18,163**	17,328

8. Net operating expenses

	2020 £000	2019 £000
Gross		
Acquisition costs – commission expenses	**39,924**	45,676
Acquisition costs – operating expenses	**23,725**	23,277
Change in deferred acquisition costs – commission expenses	**2,880**	(674)
Change in deferred acquisition costs – operating expenses	**(212)**	166
Administrative expenses	**26,034**	22,800
Lloyd's personal expenses and other charges	**10,110**	6,777
	102,461	98,022
Reinsurers' share		
Acquisition costs – commission expenses	**603**	2,358
Change in deferred acquisition costs – commission expenses	**602**	(1,640)
	1,205	718
Total	**103,666**	98,740

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

	2020 £000	2019 £000
Auditors' remuneration		
Fees payable to the auditors for the audit of the syndicate's annual accounts and Lloyd's returns	**623**	601
Fees payable to the auditors for other services pursuant to legislation	**240**	263
Total	**863**	864

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:

	2020 £000	2019 £000
Wages and salaries	**29,381**	24,823
Social security costs	**3,381**	2,807
Other pension costs	**1,540**	1,462
Other	**456**	1,189
Total	**34,758**	30,281

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

	2020 Number	2019 Number
Underwriting	**306**	300
Claims	**215**	221
Administration	**127**	145
Total	**648**	666

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:

	2020 £000	2019 £000
Aggregate emoluments	**1,475**	1,388
Pension contributions	**17**	34
Total	**1,492**	1,422

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

	2020 £000	2019 £000
Aggregate emoluments	**315**	301
Total	**315**	301

Key management of ERS SML

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

	2020 £000	2019 £000
Salaries and other short term benefits	**2,039**	2,100
Pension contributions	**51**	72
Total	**2,090**	2,172

Employer's national insurance contributions of £299k are included in the 2020 'Salaries and other short term benefits' line above (2019: £217k).

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

	2020 £000	2019 £000
Aggregate emoluments	**315**	301
Total	**315**	301

11. Investment return

	2020 £000	2019 £000
Investment income		
Income from financial assets at fair value through profit and loss	**6,917**	6,229
Net gains on realisation of investments	**710**	265
	7,627	6,494
Unrealised gains on investments	**6,772**	11,605
Investment expenses and charges	**(482)**	(732)
Unrealised losses on investments	**(6,306)**	(4,334)
Total investment return	**7,611**	13,033

Investment returns are allocated from the non-technical to the technical account as the entire investment portfolio supports the general insurance business. Investment return for the year includes an amount of £2.7m (2019: £2.7m) relating to Third Point Reinsurance coverage. This return was made in respect of the collateralised assets (note 5) which are included in reinsurers' share of claims outstanding.

12. Other income and other charges, including value adjustments

	2020 £000	2019 £000
Foreign exchange gain/(loss)	**31**	(49)
Total	**31**	(49)

13. Other financial investments

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

	2020		2019	
	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	**5,980**	**5,980**	117,883	87,499
Debt securities and other fixed income securities	**251,073**	**249,510**	155,828	155,453
Participation in investment pools	**409**	**407**	402	399
Overseas deposits	**867**	**867**	883	883
Total	**258,329**	**256,764**	274,996	244,234

14. Debtors arising out of direct insurance operations

	2020 £000	2019 £000
Due within one year		
Intermediaries	**53,813**	55,400
Total	**53,813**	55,400

15. Other debtors

	2020 £000	2019 £000
Due within one year		
Related parties	**37,483**	38,125
Other	**180**	504
Total	**37,663**	38,629

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

	2020 £000	2019 £000
Balance at 1 January	**37,157**	35,009
Change in deferred acquisition costs – gross	**(2,667)**	508
Change in deferred acquisition costs – reinsurers' share	**(603)**	1,640
Balance at 31 December	**33,887**	37,157

18. Other prepayments and accrued income

	2020 £000	2019 £000
Prepaid administrative expenses	**4,433**	3,564
Prepaid Lloyd's personal expenses and other charges	**3,420**	3,462
Total	**7,853**	7,026

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 rate		Mean of liabilities	
	2020	2019	**2020**	2019
Motor	**3.0%**	3.0%	**16.8 years**	17.7 years

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

	2020		2019	
	Gross £000	Reinsurers' share £000	Gross £000	Reinsurers' share £000
Claims provisions before discounting	**614,224**	**375,516**	629,871	361,325
Discounting credits	**(51,262)**	**(44,500)**	(52,098)	(46,092)
Claims provisions after discounting	**562,962**	**331,016**	577,773	315,233

20. Technical provisions

	2020		2019	
	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	**175,572**	**12,543**	160,243	11,604
Change in unearned premiums	**(15,605)**	**6,360**	15,329	939
Balance at 31 December	**159,967**	**18,903**	175,572	12,543
Claims outstanding				
Balance at 1 January	**577,773**	**315,233**	591,079	302,241
Claims paid	**(223,832)**	**(15,030)**	(249,626)	(12,837)
Claims incurred	**209,021**	**30,813**	236,320	25,829
Balance at 31 December	**562,962**	**331,016**	577,773	315,233
Claims outstanding				
Claims notified	**481,705**	**276,444**	521,268	268,557
Claims incurred but not reported	**81,257**	**54,572**	56,505	46,676
Balance at 31 December	**562,962**	**331,016**	577,773	315,233
Other technical provisions				
Balance at 1 January	**–**	**4,881**	–	14,630
Change in other technical provisions	**–**	**(4,881)**	–	(9,749)
Balance at 31 December	**–**	**–**	–	4,881

Gross technical provisions at year end includes an amount of £8.3m relating to Republic of Ireland business which is in scope of Part VII transfer on Scheme Effective Date ("SED") of 30 December 2020.

21. Creditors arising out of direct insurance operations

	2020 £000	2019 £000
Due within one year		
Intermediaries	**2,923**	838
Total	**2,923**	838

22. Other creditors including taxation and social security

	2020 £000	2019 £000
Due within one year		
Tax authorities	**10,355**	10,903
Related parties	**16,726**	12,520
Profit commission payable to managing agent	**3,231**	–
Total	**30,312**	23,423

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

	2020 £000	2019 £000
Profit for the financial year	**32,819**	13,892
(Decrease)/increase in gross technical provisions	**(30,416)**	2,023
Increase in reinsurers' share of technical provisions	**(17,262)**	(4,182)
Decrease/(increase) in debtors	**4,293**	(5,288)
Increase in creditors	**14,539**	16,969
Movements in other assets/liabilities	**(102)**	(22)
Investment return	**(7,611)**	(13,033)
Net cash (outflow)/inflow from operating activities	**(3,740)**	10,359

24. Cash flows from investing activities

	2020 £000	2019 £000
Other		
Syndicate loan to Lloyd's Central Fund	**4,551**	1,223
Total	**4,551**	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
2021	675
2020	675
2019	575
2018	559

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
2021	373,722
2020	373,722
2019	324,203
2018	323,892

ERS CML's share of the syndicate profit for the year is £23,224,905. ERS CML's share of the syndicate's 2018 closed year of account loss is £7,612,508.

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
2020 calendar year	–	4,318
2019 calendar year	4	4,316

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2018 closed year	–	4,316
2017 closed year	–	4,310

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
2020 calendar year	(4)	182
2019 calendar year	(226)	186

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2018 closed year	–	361
2017 closed year	(865)	725

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.

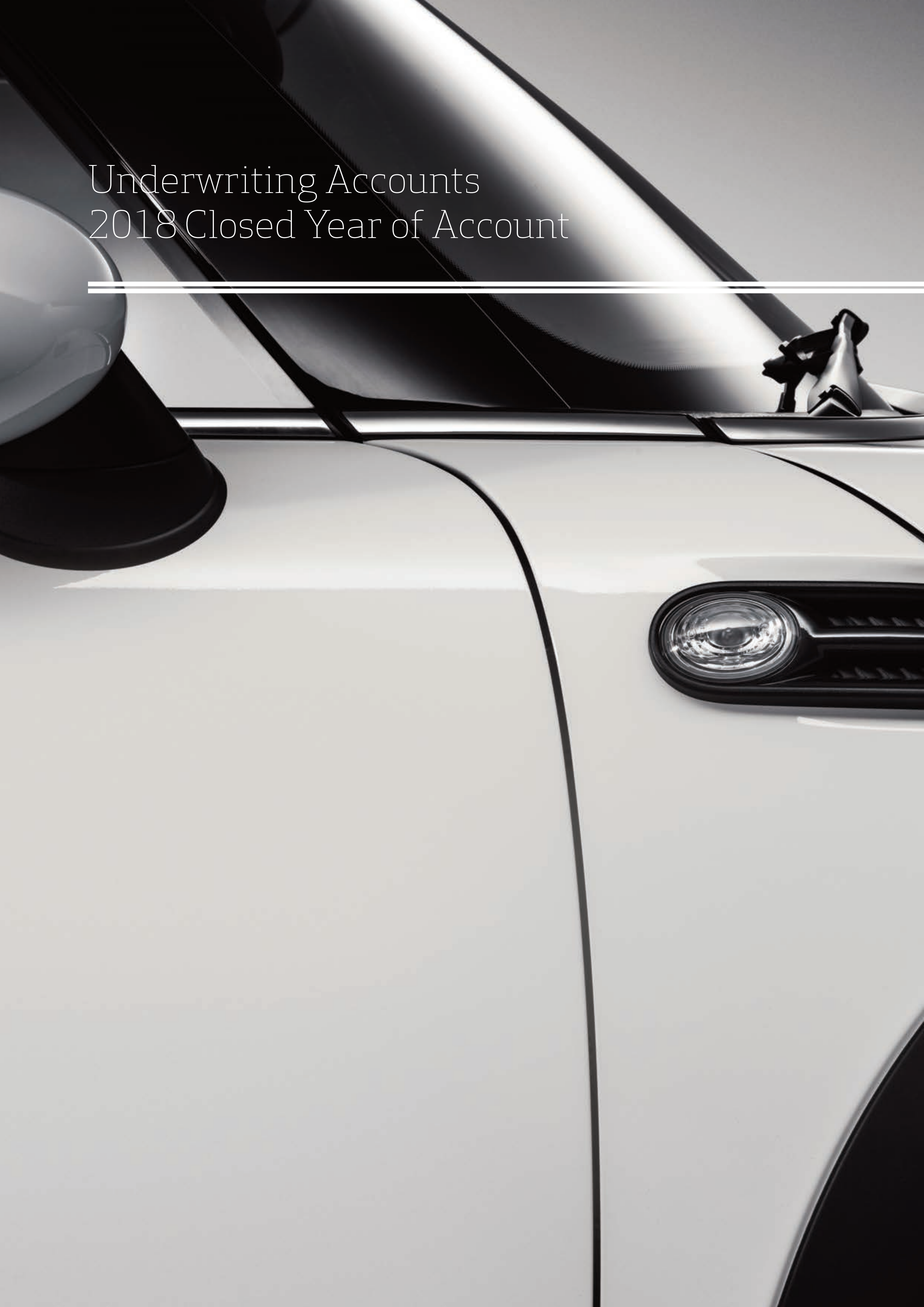
ERS SSL became an appointed representative of the managing agent ERS SML on 14 January 2005, and is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and PRA. The managing agent ERS SML does not receive any direct income from ERS SSL. No director of the managing agent ERS 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
2020 calendar year	20,852	52,882
2019 calendar year	25,758	51,029

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2018 closed year	35,376	54,205
2017 closed year	37,414	48,005

Underwriting Accounts
2018 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 2018 closed underwriting year of account as at 31 December 2020.

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

Review of the 2018 closed year of account

The 2018 account has closed with a loss of £11.3m after personal expenses representing a loss on underwriting capacity of 2.4%. The profit attributable to business reinsured into the 2018 year of account was £5.6m representing a profit on underwriting capacity of 1.1%. The pure 2018 underwriting year (excluding the 2017 and prior years which reinsured into 2018) has generated a loss of £16.9m representing 3.5% of underwriting capacity, which is a deterioration on the original syndicate business forecast expected profit of 5.1% 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 2020 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 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 steps that they ought to have taken as a director to make himself / herself 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:

Peter Bilsby
Director

4 March 2021

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 – 2018 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, Syndicate 218's syndicate underwriting year financial statements for the 2018 year of account for the three years ended 31 December 2020 (the "underwriting year financial statements"):

- 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 2018 closed year of account;
- 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 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Underwriting Accounts (the "Underwriting Year Accounts"), which comprise: the Balance Sheet for the 2018 closed year of account as at 31 December 2020; the Statement of Comprehensive Income – Technical Account for General Business, the Statement of Comprehensive Income – Non-Technical Account, the Cash Flow Statement, and the Statement of Changes in Members' Balances for the three years then ended; and the notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, 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 underwriting year financial statements* 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 underwriting year financial statements 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

Without modifying our opinion, we draw attention to note 1 of the underwriting year financial statements, which describes the basis of preparation. In particular, as these underwriting year financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year financial statements. The underwriting year financial statements 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 underwriting year financial statements may not be suitable for another purpose.

Reporting on other information

The other information comprises all of the information in the Underwriting Year Accounts other than the underwriting year financial statements and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the underwriting year financial statements 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 underwriting year financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the underwriting year financial statements 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 underwriting year financial statements 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 (the "Managing Agent's Report"), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) 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
In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2020 is consistent with the underwriting year financial statements 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.

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements
As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2018 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the underwriting year financial statements
Our objectives are to obtain reasonable assurance about whether the underwriting year financial statements 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 underwriting year financial statements.

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 underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements 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 underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed included:

- Discussions with the Board, management, internal audit and the syndicate's compliance function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Assessment of matters reported on the Managing Agent's whistleblowing helpline and management's investigation of such matters;
- Reviewing relevant meeting minutes including those of the Board, the Audit, Risk and Compliance Committee, the Risk Management Committee, the Reserving Committee and correspondence with regulatory authorities, including Lloyd's, the Financial Conduct Authority and the Prudential Regulatory Authority.
- Testing and challenging, where appropriate, the assumptions and judgements made by management in their significant accounting estimates, for example, in relation to the valuation of the reinsurance to close premium (gross and net of reinsurance);
- Reviewing the impact of any significant contracts entered into in the year;

- Identifying and testing journal entries, in particular, any journals relating to revenue, any journal entries posted with unusual account combinations, posted by senior management or unusually backdated; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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 underwriting year financial statements. 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 underwriting year financial statements 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 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

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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 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
- the underwriting year financial statements 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 2021

Statement of comprehensive income – technical account for general business

	Note	£000
Syndicate allocated capacity		**479,598**
Earned premiums, net of reinsurance		
Gross premiums written	2	**326,362**
Outward reinsurance premiums		**(28,519)**
Earned premiums, net of reinsurance		**297,843**
Reinsurance to close premium received, net of reinsurance	3	**159,368**
Allocated investment return transferred from non-technical account	11	**7,093**
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		**(240,183)**
Reinsurers' share		**15,056**
Net claims paid		**(225,127)**
Reinsurance to close premium payable, net of reinsurance	4	**(148,011)**
Claims incurred, net of reinsurance		**(373,138)**
Net operating expenses	5	**(102,435)**
Balance on the technical account for general business		**(11,269)**

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		**(11,269)**
Investment return		
Investment income	11	**7,212**
Unrealised gains on investments	11	**7,464**
Investment expenses and charges	11	**(547)**
Unrealised losses on investments	11	**(7,036)**
Allocated investment return transferred to technical account for general business	11	**(7,093)**
		–
Other income		**–**
Other charges, including value adjustments		**(3)**
		(3)
Loss for the 2018 closed year of account		**(11,272)**

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	**81,880**
Debtors	7	**40,154**
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	4	**218,294**
		340,328
Other assets		
Cash at bank and in hand		**12,621**
Overseas deposits	8	**1,459**
Accrued interest and rent		**765**
Deferred acquisition costs	13	**2,086**
		16,931
Total assets		**357,259**
Members' balances		**(12,014)**
Liabilities		
Gross reinsurance to close premium payable	4	**366,305**
Creditors	9	**2,650**
Accruals and deferred income		**318**
		369,273
Total liabilities		**357,259**

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 2 March 2021 and signed on behalf of the syndicate's managing agent by:

Ryan Warren
Finance Director

4 March 2021

Statement of changes in members' balances

	£000
2017 year of account	
Members' balances brought forward at 1 January 2020	**27,308**
Payment of profit to members' personal reserve funds	**(27,308)**
Members' balances carried forward at 31 December 2020	**–**
2018 year of account	
Loss for the closed 2018 year of account	**(11,272)**
Members' agents fees paid in respect of the year	**(742)**
Amounts due from members' carried forward at 31 December 2020	**(12,014)**
Combined amount due from members carried forward at 31 December 2020	**(12,014)**

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

Cash flow statement

	Note	£000
Net cash outflow from operating activities	12	**(2,600)**
Cash flow from investing activities		
Purchase of equity and debt instruments		**(68,350)**
Sale of equity and debt instruments		**117,008**
Investment income received net of expenses paid		**(5,387)**
Net cash generated in investing activities		**43,271**
Cash flow from financing activities		
Transfer to members in respect of underwriting participations		**(27,308)**
Members' agents fees		**(742)**
Net cash used in financing activities		**(28,050)**
Net increase in cash at bank and in hand		**12,621**
Cash and cash equivalents at the beginning of the period		**–**
Cash and cash equivalents at the end of the period		**12,621**
Cash and cash equivalents consist of:		
Cash at bank and in hand		**12,621**
Cash and cash equivalents		**12,621**

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 2018 year of account which has been closed by reinsurance to close as at 31 December 2020. Consequently, the balance sheet represents the assets and liabilities of the 2018 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

2018 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	–	(383)	–	40	(343)
Motor (third party liability)	–	–	–	–	–
Motor (other classes)	314,143	(211,012)	(96,574)	(22,763)	(16,206)
Fire and other damage to property	–	42	(15)	(42)	(15)
Other	12,219	(9,364)	(4,840)	(64)	(2,049)
	326,362	(220,717)	(101,429)	(22,829)	(18,613)
Reinsurance accepted	–	425	3	(177)	251
Total	**326,362**	**(220,292)**	**(101,426)**	**(23,006)**	**(18,362)**
Investment return					7,093
Technical account balance					**(11,269)**

3. RITC premium received, 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 received	**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 received	**(226,828)**
RITC premium received, net of reinsurance	**159,368**

4. RITC premium paid, net of reinsurance

2018 year of account closure at 31 December 2020	£000
Gross	
Provision for reported claims	**326,196**
Provision for IBNR	**40,109**
Gross RITC payable	**366,305**
Reinsurers' share	
Provision for reported claims	**(195,806)**
Provision for IBNR	**(22,488)**
Other technical provisions	**–**
Reinsurance recoveries anticipated on gross RITC premium payable	**(218,294)**
RITC premium payable, net of reinsurance	**148,011**

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	**44,327**
Acquisition costs – operating expenses	**23,619**
Administrative expenses	**24,866**
Lloyd's personal expenses and other charges	**6,647**
Auditors' remuneration	**830**
Directors' remuneration	**1,137**
	101,426
Reinsurers' share	
Acquisition costs – commission expenses	**1,009**
	1,009
Total	**102,435**

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	**65**	66
Debt securities and other fixed income securities	**80,539**	80,037
Participation in investment pools	**409**	407
Overseas deposits	**867**	867
Total	**81,880**	81,377

7. Debtors

	£000
Due within one year	
Debtors arising out of direct insurance operations – intermediaries	**202**
Debtors arising out of reinsurance operations	**2,395**
Related parties	**37,483**
Other	**74**
Total	**40,154**

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
Due within one year	
Creditors arising out of direct insurance operations – intermediaries	**623**
Related parties	**2,027**
Total	**2,650**

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%**	**16.8 years**

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

	Gross £000	Reinsurers' Share £000
Claims provisions before discounting	**417,567**	262,794
Discounting credits	**(51,262)**	(44,500)
Claims provisions after discounting	**366,305**	218,294

11. Investment return

	£000
Investment income	
Income from financial assets at fair value through profit and loss	5,935
Net gains on realisation of investments	1,277
	7,212
Unrealised gains on investments	7,464
Investment expenses and charges	(547)
Unrealised losses on investments	(7,036)
Total investment return	**7,093**

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 loss for the year of account to net cash outflow from operating activities

	£000
Loss for the closed year of account	(11,272)
RITC premium received, net of reinsurance – non cash consideration	(139,651)
RITC premium payable, net of reinsurance	148,011
Decrease in debtors	537
Increase in creditors	1,581
Movements in other assets and liabilities	(102)
Investment return	(1,704)
Net cash outflow from operating activities	**(2,600)**

13. Deferred acquisition costs

	£000
Deferred acquisition costs – reinsurers' share	2,086
Total	**2,086**

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 48 to 49.

Seven year summary of results

	2012 closed	2013 closed	2014 closed	2015 closed	2016 closed	2017 closed	2018 closed
Syndicate allocated capacity (£'000)	436,931	437,278	437,522	349,828	359,462	478,865	479,598
Number of members of the syndicate	1,412	1,390	1,331	1,293	1,297	1,290	1,076
Aggregate net premiums (£'000)	418,546	347,434	346,344	372,521	377,246	354,939	297,843

	2012 closed	2013 closed	2014 closed	2015 closed	2016 closed	2017 closed	2018 closed
Result for a member with an illustrative share of £10,000							
Gross premiums written	9,932	9,725	8,695	11,040	11,559	7,850	6,805
As a percentage of allocated capacity	*99%*	*97%*	*87%*	*110%*	*116%*	*79%*	*68%*
Net premiums written	9,579	7,945	7,916	10,649	10,495	7,412	6,210
As a percentage of allocated capacity	*96%*	*79%*	*79%*	*106%*	*105%*	*74%*	*62%*
Premiums for the reinsurance to close an earlier year of account	5,427	4,750	3,365	3,760	4,306	3,518	3,323
Net claims paid	(6,793)	(5,740)	(5,893)	(7,329)	(7,751)	(4,973)	(4,694)
Reinsurance to close year of account	(4,754)	(3,368)	(3,006)	(4,425)	(4,687)	(3,328)	(3,086)
Underwriting result	3,459	3,587	2,382	2,655	2,363	2,629	1,753
As a percentage of gross premiums	*35%*	*37%*	*27%*	*24%*	*20%*	*33%*	*26%*
Syndicate operating expenses	(3,464)	(3,333)	(2,900)	(3,132)	(2,931)	(2,051)	(1,997)
Net underwriting result	(5)	254	(518)	(477)	(568)	578	(244)
As a percentage of gross premiums	*(0%)*	*3%*	*(6%)*	*(4%)*	*(5%)*	*7%*	*(4%)*
Investment return	188	156	205	193	68	161	148
Profit/(loss) before personal expenses	183	410	(313)	(284)	(500)	739	(96)
Illustrative personal expenses	(152)	(166)	(161)	(181)	(193)	(149)	(139)
Illustrative profit commission	–	–	–	–	–	–	–
Profit/(loss) after illustrative profit commission and personal expenses (£)	31	244	(474)	(465)	(693)	590	(235)

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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Produced by Perivan 260440

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