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Annual Report and Financial Statements

Syndicate 1955

31 December 2020

Arch Syndicate 1955
31 December 2020

CONTENTS **PAGE**

DIRECTORS AND ADMINISTRATION

Managing Agent
Arch Managing Agency Limited (Formerly Barbican Managing Agency Limited)

Directors

D M Booth	(Resigned 30 April 2020)
S Bashford	(Appointed 30 April 2020)
H N A Colthurst	(Resigned 30 April 2020)
A D Elliott	(Resigned 30 April 2020)
N Denniston	(Appointed 30 April 2020)
J W Heap	(Resigned 30 April 2020)
R H Johnson	(Resigned 30 April 2020)
R A Keers	(Resigned 30 April 2020)
J A Kittinger	
H R Sturgess	
L G D N Tucker	(Resigned 30 April 2020)
P Leoni	(Appointed 30 April 2020)
J Mentz	(Appointed 30 April 2020)
P Storey	(Appointed 30 April 2020)
M Hammer-Dahinden	(Appointed 30 April 2020)
A Flanagan	(Appointed 1 January 2021)
W Canagaretna	(Resigned 8 January 2021)
P Martin	(Resigned 12 January 2021)

Company Secretary

Z L Nattress	(Resigned 19 June 2020)
P A Ralph	(Appointed 1 November 2020)

Managing Agent's Registered Office
60 Great Tower Street
London EC3R 5AZ

Syndicate Active Underwriter
S Williams

Managing Agent's Registered Number
06948515

Bankers
Lloyds Bank plc
Citibank NA
Royal Trust Corporation of Canada

Investment Managers
New England Asset Management

Auditor
Ernst & Young LLP
25 Churchill Place
London E14 5EY

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY

The Directors of the Managing Agent ("the Agency") present their annual report and financial statements for the year ended 31 December 2020 for Syndicate 1955 ("the Syndicate").

Principal Activity

The principal activity of the Syndicate is the transaction of general insurance and reinsurance business in the Lloyd’s Market. The business within these segments include Marine, Aviation and Transport, Energy, Property, Financial Lines, A&H, Casualty and Specialty.

The result for calendar year 2020 is a loss of £31.8m (2019: profit of £2.5m). This is analysed further below.

Key Performance Indicators

Taking into account the Special Purpose Arrangement ("SPA") cessions and cessions to Syndicate 1856, the Syndicate's key financial performance indicators during the year were as follows:

	2020	2020	2020	2019	2019	2019
	Total written	SPA/1856 cession	Retained	Total written	SPA/1856 cession	Retained
	£m	£m	£m	£m	£m	£m
Gross premiums written	269.8	-	269.8	357.0	-	357.0
Gross premiums earned	284.4	-	284.4	398.2	-	398.2
Net premiums earned	239.9	(27.9)	212.0	274.1	(95.6)	178.5
Net claims incurred	(213.3)	24.9	(188.4)	(184.1)	72.9	(111.2)
Other technical income, net of reinsurance	(1.2)	-	(1.2)	0.2	-	0.2
Investment return	10.9	(1.3)	9.6	10.7	(4.1)	6.6
Operating expenses	(75.2)	11.4	(63.8)	(99.0)	27.1	(71.9)
Realised and unrealised movements on foreign exchange	-	-	-	0.6	(0.3)	0.3
Profit for the year	(38.9)	7.1	(31.8)	2.5	-	2.5
Net Claims ratio	88.9%	88.9%	88.9%	67.2%	76.2%	62.3%
Net Expense ratio*	31.4%	40.8%	30.1%	36.1%	28.4%	40.2%
Net Combined ratio	120.3%	129.7%	119.0%	103.3%	104.6%	102.5%

* Expense ratio includes impact of other technical income, which comprises consortium income.

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Review of the Business

Our underwriting strategy is to operate in Specialty lines of business, writing both insurance and reinsurance, in which underwriting expertise can make a meaningful difference to operating results. Syndicate 1955 underwrites at Lloyd's in the wholesale insurance market and through selective delegated underwriting authorities as well as utilising underwriting expertise to lead market consortia arrangements.

The focus for 2020 has been to grow in classes of business that meet our return criteria while de-emphasising those classes that do not. While the overall rating environment improved significantly during 2020, with firmer pricing for many lines of business, the Syndicate's overall premium reduced year on year as we implemented that strategy. Additionally, during the year, we have looked to leverage off Arch's wider group by: a) accessing reinsurance purchasing power shared across multiple platforms; b) expense synergies from pooled resources and more efficient access to business and c) access to distribution from long-standing relationships from clients and brokers.

The Syndicate has utilised several whole account quota share arrangements that impacted the 2020 calendar year. Those included the following:

Quota Share to SPA 6118:

2018 YOA = 38.9% amounting to £131.1m of cumulative premium ceded

2019 and 2020 YOA = nil

Quota Share to SPA 6132:

2018 YOA = 10.9% amounting to £42.2m of cumulative premium ceded

2019 YOA = 15.18% and an additional 5% on Financial Institutions and Cyber classes, all of which amounted to £48.2m of cumulative ceded premium

2020 YOA = 15.46% and an additional 5% on Financial Institutions and Cyber classes, all of which amounted to £40.9m of cumulative ceded premium.

The cessions were calculated on the Syndicate's result net of external reinsurance and are ceded on a funds withheld basis.

The 2017 quota share contract with Syndicate 1856 was commuted on 1 January 2020 and impacted both the income statement and statement of financial position. The Syndicate received a refund amounting to £49.1m from Syndicate 1856 resulting in a decrease in outward reinsurance expense. This was offset by a resulting decrease in the reinsurance recoveries and thus having no impact on net results.

During 2020, the COVID-19 pandemic emerged across the globe. As a result of COVID-19, the Syndicate incurred losses related to the pandemic of £7.5m (net). Additional catastrophe and large losses contributed £11.5m of loss. The 2020 year was also adversely impacted by £26.6m (net) of unfavourable development related to deterioration in a number of lines on prior underwriting years. These losses were offset by £9.6m of investment return, resulting in an overall loss for the year of £31.8m.

In 2020, The Syndicate operated through two segments, Insurance and Reinsurance. These segments produced an aggregate of £269.8m of Gross written premium (2019: £357.0m). The reduction in premium from 2019 was due to the strategy previously mentioned as well as a change in the timing of recognition of gross written premiums on the 2020 YOA.

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Review of the Business (continued)

The Insurance and Reinsurance segments include the following classes of business:

Marine, Aviation and Transport (MAT)

The MAT class of business encompasses both the Marine Reinsurance and Marine Insurance lines of business. It also includes General Aviation and Aerospace, Terrorism and Political Risk business. In 2020, this class of business generated Gross written premium of £94.9m (2019: £122.1m).

Energy

In 2020, the Energy class of business, which is comprised of Upstream and Downstream Energy, generated Gross written premium of £19.0m (2019: £37.0m).

Property

The Property class of business operates in three lines of business: Property Insurance (including Open Market and Binding Authorities), Property Reinsurance and UK Property & Casualty Insurance. This class of business also includes Nuclear Insurance. In 2020, this class of business generated Gross written premium of £46.8m (2019: £43.1m).

Financial Lines

The Financial lines class of business includes three lines of business: Cyber Liability, UK SME Professional Indemnity and Financial & Professional Lines. In 2020, this class of business generated Gross written premium of £33.5m (2019: £65.7m).

A&H and Casualty

The A&H and Casualty class of business includes three lines of business: Healthcare Liability, International Casualty Reinsurance and North American Casualty Reinsurance. In 2020, this class of business generated Gross written premium of £75.8m (2019: £87.1m).

Facilities

The Facilities class of business generated gross written premium of £(0.2)m (2019:£2.0 m).

Business Environment

The 2020 year experienced much improved market conditions across many lines of business in both insurance and reinsurance lines. This change is on the back of some challenging market conditions in previous years. As the year progressed certain lines of business experienced significant rate change most notably in Commercial D&O, Healthcare and Cyber. In addition to the positive rating environment there was a general improvement in policy terms and conditions. The improved market conditions were offset by a number of factors such as deterioration in prior year reserves, increase in natural catastrophe loss activity in 2020 and the Covid-19 pandemic.

Future Developments

Following constructive engagement with Lloyd’s, the Syndicate's 2021 business plan represents a 16.6% change in stamp capacity to £322.5m (from £276.5m for the 2020 business plan). This will allow us to capitalise on the increase in rates observed across the market with the aim to improve the combined ratio and achieve a greater return on capital to the Members of Syndicate 1955.

Additionally, the Syndicate will continue to purchase whole account quota share reinsurance from SPA 6132 and will utilise Lloyd’s Brussels as appropriate.

On February 18, 2021, AMAL on behalf of the Members’ of Syndicate 1955 entered into an agreement with Premia Managing Agency Limited for the Reinsurance to Close (RITC) of Syndicate 1955’s 2018 underwriting Year of Account into Premia Syndicate 1884’s 2021 Year of Account. The RITC covers legacy business underwritten by Syndicate 1955 on the underwriting 2018 and prior years of account and under the agreement, approximately £286 million of year end net liabilities of Syndicate 1955 transferred to Syndicate 1884.

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Investment Returns

The Syndicate's investable funds at the end of 2020 were £347.5m (2019: £294.7m), an increase of 17.9%. This was driven primarily by funds received from syndicate 1856 in relation to the whole account Quota share contract commutation, as discussed earlier.

The Syndicate continues to invest on a prudent basis. Funds are held in term cash deposits or invested by the Syndicate's investment manager, New England Asset Management, in comparatively short duration government bonds or investment grade corporate bonds. Investment yields were up overall in 2020 to 1.7% (2019: 1.6%). The 2020 investment return of £9.6m has significantly increased (2019: £6.6m) predominantly to higher unrealised gains driven by falling interest rates, as Central Banks responded to COVID 19.

Part VII

On 30 December 2020, the Syndicate transferred its EEA non-life insurance policies written between 2008 and 2020 to Lloyd’s Insurance Company S.A. (“Lloyd’s Brussels”) pursuant to Part VII of the Financial Services and Market Act 2000. The value of net liabilities was £58.5m. The Syndicate transferred cash of the same amount to Lloyd’s Brussels. Lloyd’s Brussels subsequently reinsured the same liabilities back to the Syndicate on the same day. The reinsurance premium received was of the same amount of £58.5m. There was no gain or loss arising on either transaction and as a result there has been no Profit and Loss impact recognised in the Accounts. Debtors requiring to be reclassified at at the time of the transfer amounted to £nil.

Principal Risks and Uncertainties

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

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

Insurance Risk

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

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Principal Risks and Uncertainties (continued)

Credit Risk

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers. The Agency's policy is that the Syndicate generally reinsures with businesses rated A- or higher by one or more rating agencies. The Syndicate only uses reinsurers with lower ratings or that are completely unrated where collateral or a claims paying guarantee from a parent undertaking is provided.

Currency Risk

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

Liquidity Risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk, the Agency Board reviews cash flow projections regularly and ensures the Syndicate holds adequate liquid investments in its portfolios.

Group Risk

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

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

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

Operational Risk

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

Regulatory Risk

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

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Principal Risks and Uncertainties (continued)

Regulatory Risk (continued)

With the Managing Agency change taking effect on 31 August 2020, the Agency now manages Syndicate 2012 as well. Syndicate 1955's underwriting risks are governed by the Managing Agency and whilst most lines of business fit uniquely either into Syndicate 1955's or Syndicate 2012's book of business, a Conflicts Committee was established to oversee any potential conflicts where there is an overlap of business written.

Market Risk

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

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

For further information on the principal risks and uncertainties, see Note 19 in the Notes to the Financial Statements.

Climate Change

Throughout the year, there has been continued focus on the impact of the Syndicate's operations on the community and the environment. Environmental, Social and Governance (ESG) has entered the mainstream in recent years as stakeholders evaluate organisations not only to gauge their money-making ability, but also their commitment to making positive change in the world and their ability to manage risks arising out of environmental and social changes.

The Syndicate, as part of the wider Arch Capital Group Limited (ACGL) group, is governed by the ESG Steering Committee, which is chaired by Marcy Rathman, who has responsibility for coordinating and managing the oversight of ACGL's growing ESG program. The Directors of the Managing Agency review the output of the ESG Steering Committee, and where deemed appropriate incorporate its recommendation in their management of the Syndicate.

In addition, the directors have made an assessment of the specific risk of climate change to the Syndicate and have identified potential risks to relating to underwriting and investment risks.

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Disclosure of Information to the Auditor

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

By order of the Agency Board

Jason A Kittinger
Chief Financial Officer
11 March 2021

MANAGING AGENT'S RESPONSIBILITIES STATEMENT

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate Annual Accounts; and
- prepare the Syndicate Annual Accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Agency is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate Annual Accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1955

Opinion

We have audited the Syndicate annual accounts of Syndicate 1955 ('the Syndicate') for the year ended 31 December 2020 which comprise the Income Statement, the Statement of changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the Syndicate’s affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Syndicate annual accounts section of our report below. We are independent of the Syndicate in accordance with ethical requirements that are relevant to our audit of the Syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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 adopt the going concern basis of accounting for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate’s ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1955 (CONTINUED)

Other Information

The other information comprises the information included in the annual report set out on pages 3 to 10, other than the Syndicate annual accounts and our auditor's report thereon. The directors of the managing agent are responsible for the other information.

Our opinion on the Syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual accounts themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the managing agent's report for the financial year in which the Syndicate annual accounts are prepared is consistent with the Syndicate annual accounts; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the Syndicate has not kept adequate accounting records; or
- the Syndicate annual accounts are not in agreement with the accounting records; or
- certain disclosures of the managing agents' emoluments specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1955 (CONTINUED)

Responsibilities of the directors of the managing agent

As explained more fully in the Statement of the Managing Agent's Responsibilities set out on page 10, the managing agent is responsible for the preparation of the Syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the Syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the Syndicate annual accounts, the managing agent is responsible for assessing the Syndicate's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the Syndicate, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Syndicate annual accounts

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the managing agent and management. Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations, related to elements of Lloyd’s Byelaws and Regulations, and the financial reporting framework (UK GAAP), and requirements referred to by Lloyd’s in the instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of the Lloyd’s of London, Prudential Regulation Authority (‘PRA’) and the Financial Conduct Authority (‘FCA’).
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd’s of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent’s approach to governance.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1955 (CONTINUED)

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate annual accounts' items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the syndicate's annual accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk that was considered to be higher within the valuation of gross incurred but not reported (IBNR) reserves and estimated premium income.

Our audit procedures included:

- Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries, we assessed if there were any indicators of management bias in the valuation of gross IBNR reserves and the recognition of estimated premium income.
- Evaluating the business rationale for significant and/or unusual transactions.
- Testing the appropriateness of journal entries recorded in the general ledger, particularly in respect of judgemental areas including gross IBNR reserves and estimated premium income.

In addition, we considered the impact of Covid-19 on the Syndicate, including an assessment of the consistency of operations and controls in place as they transitioned to operating remotely for a significant proportion of 2020, making enquiries with management via the use of video conferencing. We performed analytical review procedures to assess for unusual movements throughout the year. Our audit procedures also incorporated unpredictability into the nature, timing and extent of our testing.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1955 (CONTINUED)

Use of our report

This report is made solely to the Syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate and the Syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Robert Bruce (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

11 March 2021

INCOME STATEMENT

Technical Account - General Business

For the year ended 31 December 2020

	Notes	2020	2019
		£m	£m
Gross premiums written	2	269.8	357.0
Outward reinsurance premiums		(53.1)	(165.1)
Net premiums written		216.7	191.9
Change in the provision for unearned premiums:			
- Gross amount		14.6	41.2
- Reinsurers' share		(19.3)	(54.6)
Change in the net provision for unearned premiums	11	(4.7)	(13.4)
Earned premiums, net of reinsurance		212.0	178.5
Allocated investment return transferred from non-technical account	3	9.6	6.6
Other technical income, net of reinsurance	4	(1.2)	0.2
Claims paid			
- Gross amount		(263.9)	(327.1)
- Reinsurers' share		119.8	234.7
Net claims paid		(144.1)	(92.4)
Change in the claims outstanding			
- Gross amount		17.5	(20.9)
- Reinsurers' share		(61.8)	2.1
Change in the net claims outstanding	12	(44.3)	(18.8)
Claims incurred, net of reinsurance		(188.4)	(111.2)
Net operating expenses	5	(63.8)	(71.9)
Balance on the technical account for general business		(31.8)	2.2

INCOME STATEMENT (CONTINUED)

Non-Technical Account - General Business

For the year ended 31 December 2020

	Notes	2020	2019
		£m	£m
Balance on the general business technical account		(31.8)	2.2
Investment income	3	5.1	4.2
Unrealised gains on investments	3	4.3	1.7
Realised gains on investments	3	0.3	0.8
Investment expenses and charges	3	(0.1)	(0.1)
Allocated investment return transferred to general business technical account		(9.6)	(6.6)
Foreign exchange gains		-	0.3
(Loss)/Profit for the year		(31.8)	2.5

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

STATEMENT OF CHANGES IN MEMBERS' BALANCES

For the year ended 31 December 2020

	Note	2020	2019
		£m	£m
At 1 January		(18.7)	(28.1)
(Loss)/Profit for the year		(31.8)	2.5
Profit distribution	21	6.2	6.9
At 31 December		(44.3)	(18.7)

STATEMENT OF FINANCIAL POSITION

Assets

As at 31 December 2020

	Notes	2020 £m	2019 £m (Restated)
Investments			
Financial investments	9	323.7	263.0
Reinsurers' share of technical provisions			
Provision for unearned premiums	11	48.7	69.7
Claims outstanding	12	390.9	503.8
		439.6	573.5
Debtors			
Debtors arising out of direct insurance operations - intermediaries	13	72.6	69.9
Debtors arising out of reinsurance operations	10	106.0	165.7
Other debtors		2.2	3.2
		180.8	238.8
Other assets			
Cash at bank and in hand	14	18.1	21.1
Other deposits	14	5.7	10.6
Claims floats		3.3	3.3
		27.1	35.0
Prepayments and accrued income			
Deferred acquisition costs	15	24.6	31.7
Other prepayments and accrued income	16	1.7	1.8
		26.3	33.5
Total assets		997.5	1,143.8

STATEMENT OF FINANCIAL POSITION (CONTINUED)

Member's Balances and Liabilities

As at 31 December 2020

	Notes	2020 £m	2019 £m
Member's balances and liabilities			
Member's balances	19	(44.3)	(18.7)
Liabilities			
Technical provisions			
Provision for unearned premiums	11	130.2	147.0
Claims outstanding	12	794.9	821.6
		925.1	968.6
Creditors due within one year			
Creditors arising out of direct insurance operations	17	2.2	0.4
Creditors arising out of reinsurance operations	18	68.6	126.0
Other creditors		8.6	3.3
		79.4	129.7
Accruals and deferred income		4.9	7.8
Creditors due after one year			
Creditors arising out of reinsurance operations	18	32.4	56.4
Total liabilities		1,041.8	1,162.5
Total members' balances and liabilities		997.5	1,143.8

The Annual Accounts on pages 16 to 64 were approved by the Board of Arch Managing Agency Limited on 8 March 2021 and were signed on its behalf by

J A Kittinger
Chief Financial Officer
11 March 2021

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Profit/(Loss) for the financial year		(31.8)	2.5
Adjustments for:			
Movement in general insurance unearned premiums and outstanding claims	11, 12	(43.5)	(56.1)
Movement in reinsurers' share of unearned premiums and outstanding claims	11, 12	133.9	75.0
Investment return	3	(9.6)	(6.6)
Movements in other assets/liabilities		(23.1)	(72.8)
Net cash from operating activities		25.9	(58.0)
Cash flows from investing activities			
Purchase of equity and debt instruments		(313.0)	(188.6)
Sale of equity and debt instruments		241.2	234.4
Investment income received		5.4	4.9
Net cash from investing activities		(66.4)	50.7
Cash flows from financing activities			
Loss distribution	21	6.2	6.9
Net cash used in financing activities		6.2	6.9
Net decrease in cash and cash equivalents		(34.3)	(0.4)
Cash and cash equivalents at the beginning of the year		58.1	58.5
Cash and cash equivalents at the end of the year	14	23.8	58.1

NOTES TO THE FINANCIAL STATEMENTS

1 Significant Accounting Policies

a. Statement of Compliance

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards and the "Insurance Accounts Directive" (Lloyd's Syndicate Accounts) Regulations 2008 and in accordance with the provisions of Schedule 3 of Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

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

b. Basis of Preparation

The financial statements for the year ended 31 December 2020 were approved for issue by the Agency Board on 8 March 2021.

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

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard, for its insurance contracts.

The Syndicate has taken out quota share contracts with SPA 6118 and SPA 6132. The contracts operate on a "funds withheld basis" whereby the proportion of the ceded premiums are considered as combined funds from which loss recoveries will be drawn. The associated cash flows are expected to occur following the closure of the years of account at 36 months. As such, the balance of amounts ceded by the Syndicate to the SPAs is recognised as a liability on the Statement of Financial Position.

Amounts ceded from the Syndicate to the SPAs are gross of external reinsurance, are recognised as reinsurance balances in the Syndicate, then are in turn recognised as gross balances in the SPAs. The SPA's share of the Syndicate's external outward reinsurance is recognised as reinsurance balances in the SPAs. The SPAs also take a share of investment income and expenses, which are ceded out of the Syndicate and recognised in the equivalent accounts in the SPAs.

c. Judgements and Key Sources of Estimation Uncertainty

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

Insurance Contract Technical Provisions

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

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

Insurance Contract Technical Provisions (continued)

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

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

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

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the earnings methodology on an insurance contract requires amortisation of unearned premium on a basis other than time apportionment. Further details are given in note 19.

Estimates of Future Premiums

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

d. Financial Instruments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 - Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

All regular purchases and sales of financial assets are recognised on the trade date i.e. the date the Syndicate commits to purchase or sell the asset. Regular purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit on initial recognition.

Investments classified as held for trading are typically bought with the intention to sell in the near future. The Syndicate does not classify any investments as held for trading.

All financial assets except for receivables have been designated as fair value through profit or loss on initial recognition. This has been deemed the most appropriate classification for these assets as this reflects the fact that the investment portfolios are managed, and their performance evaluated, on a fair value basis.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Overseas Deposits

Overseas deposits that are investment in nature are reported under Financial Investments and are stated at fair value. Overseas deposits that are cash and short-term deposits are reported as other deposits in the Statement of Financial Position.

Fair Value of Financial Assets

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the Syndicate can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

d. Financial Instruments (continued)

A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For Level 3 financial instruments, fair value is measured at the cost of the asset or liability.

See note 9 for details of financial instruments classified by fair value hierarchy.

De-recognition of Financial Assets

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

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

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

Collateral Arrangements

The Syndicate has cash collateral held in third party trusts, in respect of reinsurance arrangements with unrated counterparties. The rights and obligations are not with the Syndicate, but with the provider of the collateral and as such are not recognised as financial assets. There are no non-cash collateral arrangements in place. The Syndicate is not required to provide collateral for counterparties for which it is acting as the reinsurer.

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial Liabilities

The Syndicate's financial liabilities include trade and other payables, borrowings, and insurance payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate (EIR) method amortisation process.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

d. Financial Instruments (continued)

Financial Liabilities (continued)

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

e. Investment Return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Interest income is recognised on an accruals basis based on the effective interest rate. Dividend income is recognised when the shareholder’s right to receive payment is established.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

f. Insurance Contracts

Product Classification

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

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

Gross Premiums

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

Reinsurance Premiums

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

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

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

Reinsurance premiums under a Losses Occurring During (“LOD”) contract are earned on a straight line basis over the period of the reinsurance contract based on inception and expiry dates.

Losses that occur during the length of the contract could relate to the current, prior or following Year of Account, therefore an allocation to Year of Account is applied to this type of policy. The allocation is based on historical class level monthly earnings for the underlying gross policies.

Fees and Commission Income

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

Claims

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

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

Technical Provisions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

Technical Provisions (continued)
Claims Outstanding

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

These methods generally involve projecting from past claims development experience over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions.

For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

Technical Provisions (continued)
Provisions for Unearned Premiums

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

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

Unexpired Risks

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

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

At 31 December 2020 and 31 December 2019 the Syndicate did not have an unexpired risks provision.

Deferred Acquisition Costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.
Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods. Deferred acquisition costs are amortised over the period in which the related premiums are earned.

The reinsurers’ share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement, except for the overrider commission for the 1856 quota share contract on the 2018 YOA which is treated as fully earned.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

Reinsurance Assets

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

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

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

Insurance Receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment should events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Income Statement.

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

Insurance Payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

g. Provisions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

h. Foreign Currencies

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

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

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

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

i. Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate are included in the Statement of Financial Position under the heading "other debtors".

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

j. Pension Costs

The Arch Group of companies, of which the Agency is a member, operates a defined contribution pension scheme. Pension contributions relating to Agency staff are charged proportionately to the Syndicate and included within net operating expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Significant Accounting Policies (continued)

k. Profit Commission

Profit commission is payable to the Agency at a rate of 15.2% on the 2020 Year of Account (13.9% on the 2019 and prior Years of Account) on the cumulative profit. This is charged to the Syndicate as incurred but does not become payable until after the appropriate Year of Account closes, normally at 36 months. In the event that a Year of Account is loss making, a deficit clause permits losses to be carried forward against future Year of Account profits (up to two years) in order to reduce future Year of Account profit commission payments.

l. Consortia Income

Consortia income is charged by the Syndicate on certain lines of business, at a rate of 3.5%, 5.0%, 7.5% or 10.0% of Gross written premium (depending on the consortium) on a Year of Account basis. This is charged by the Syndicate as incurred and becomes payable quarterly based on the premium written that quarter. The Syndicate recognises Consortia income on the 2014 to 2016 Years of Account. From 2017 onwards, Consortia income is recognised directly through the Agency.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Segmental Analysis

a. Analysis by Class of Business

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

2020	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£m	£m	£m	£m	£m	£m
Direct insurance:						
Energy-marine	6.5	8.4	(5.1)	(3.0)	(2.2)	(1.9)
Energy-non marine	6.3	9.0	2.2	(9.9)	(1.8)	(0.5)
Marine, aviation and transport	0.3	9.3	(7.5)	(0.8)	(3.7)	(2.6)
Fire and other damage to property	10.5	19.0	(5.3)	(8.5)	1.0	6.2
Third party liability	50.7	55.9	(56.3)	(16.6)	15.6	(1.4)
Accident and health	3.5	2.9	(9.5)	(1.9)	1.9	(6.6)
Pecuniary loss	3.5	6.2	(2.4)	(0.9)	(3.7)	(0.8)
Total direct	81.3	110.7	(83.9)	(41.6)	7.1	(7.7)
Reinsurance	188.5	173.7	(162.5)	(31.5)	(12.2)	(32.5)
	269.8	284.4	(246.4)	(73.1)	(5.1)	(40.2)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Segmental Analysis (continued)

a. Analysis by Class of Business (continued)

2019	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£m	£m	£m	£m	£m	£m
Direct insurance:						
Energy-marine	9.8	14.4	(9.6)	(3.4)	(0.9)	0.5
Energy-non marine	12.6	10.1	(26.2)	(2.4)	14.0	(4.5)
Marine, aviation and transport	22.9	26.2	(25.9)	(4.5)	6.3	2.1
Fire and other damage to property	5.4	23.5	(21.1)	(5.8)	1.0	(2.4)
Third party liability	89.8	110.7	(90.9)	(33.3)	12.5	(1.0)
Accident and health	9.3	15.7	(4.8)	(5.2)	(5.0)	0.7
Pecuniary loss	9.1	17.0	(23.9)	(4.2)	13.0	1.9
Total direct	158.9	217.6	(202.4)	(58.8)	40.9	(2.7)
Reinsurance	198.1	180.6	(145.6)	(36.4)	(0.3)	(1.7)
	357.0	398.2	(348.0)	(95.2)	40.6	(4.4)

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

Gross operating expenses are net of consortia income of £(1.2)m (2019: £0.2m) per note 4.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Segmental Analysis (continued)

b. Analysis by Geographical Location

The geographical analysis of premiums by destination (or location of risk) is as follows:

	2020	2019
	£m	£m
UK	83.9	131.8
EU member states	24.5	36.0
USA	93.4	110.8
Rest of the World	68.0	78.4
Gross premiums written	269.8	357.0

c. Part VII

On 30 December 2020, the Syndicate transferred its EEA non-life insurance policies written between 2008 and 2020 to Lloyd's Insurance Company S.A. ("Lloyd's Brussels") pursuant to Part VII of the Financial Services and Market Act 2000. The value of net liabilities was £58.5m. The Syndicate transferred cash of the same amount to Lloyd's Brussels. Lloyd's Brussels subsequently reinsured the same liabilities back to the Syndicate on the same day. The reinsurance premium received was of the same amount of £58.5m. There was no gain or loss arising on either transaction and as a result there has been no Profit and Loss impact recognised in the Accounts. Debtors requiring to be reclassified at at the time of the transfer amounted to £nil.

Both the cash transferred for the Part VII transfer and the premium subsequently received back from Lloyd's Brussels have been included in the "gross written premiums" line of the Profit and Loss Account. This is the appropriate treatment that best reflects the connection between economic substance of both the Part VII transfer and the associated reinsurance arrangement, and the resulting economic substance of the combined transactions.

3 Investment return

All of the Syndicate's investments are recognised at fair value through profit or loss.

	2020	2019
	£m	£m
Investment income		
Income from investments, cash and other deposits	5.1	4.2
Gains on realisation of investments	0.3	0.8
Total investment income	5.4	5.0
Unrealised gains in investments at fair value through profit or loss	4.3	1.7
Investment management charges		
Investment management expenses, including interest	(0.1)	(0.1)
Net investment return	9.6	6.6

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Other Technical Income

Other technical income of £(1.2m) in 2020 (2019: £0.2m) represents consortium income on the 2016 and prior years of account. Consortium contracts between the Syndicate and other Lloyd's Syndicates are in place for various underwriting years on the Financial and Professional, Cyber and Energy classes. The Syndicate is the lead on these consortia. Consortia income of £1.2m was written off during the year as it was deemed uncollectable.

5 Net Operating Expenses

	2020	2019
	£m	£m
Acquisition costs	47.9	65.6
Reinsurers' commissions	(9.3)	(23.5)
Change in deferred acquisition costs (note 15)	6.8	16.1
Administrative expenses	18.4	13.7
	63.8	71.9

Administrative expenses include:

	2020	2019
	£m	£m
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	4.0	4.6

Acquisition costs include commissions payable in respect of direct insurance business amounting to £25.8m (2019: £33.0m).

Administrative expenses include staff costs of £6.2m (2019: £3.6m). This is further broken down in note 7.

6 Auditor's Remuneration

	2020	2019
	£m	£m
Audit of the Syndicate Annual Accounts	0.2	0.1
Audit related services	0.1	0.1
	0.3	0.2

The above represents the Syndicate's share of the total audit fee. The SPAs incur audit fees as part of the whole account quota share arrangements between the Syndicate and the SPAs.

Auditors' remuneration is included as part of the administrative expenses in note 5.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Staff Costs and Directors' Remuneration

a. Staff Costs

All staff in Arch Managing Agency Limited are employed by Arch Europe Insurance Services Limited (“AEIS”), an Arch group Company. The following amounts were recharged to the Syndicate in respect of salary costs:

	2020	2019
	£m	£m
Wages and salaries	5.9	3.4
Social security and pension costs	0.3	0.2
	6.2	3.6

The average number of employees employed by AEIS, but working for the Syndicate during the year was as follows:

	2020	2019
	No.	No.
Administration and Finance	51	9
Underwriting	40	40
Claims	15	16
	106	65

The 2019 comparative shows staff numbers employed by Barbican Holdings UK (BHUK), as employee contracts were transferred from BHUK to AEIS during 2020.

b.

Directors' Remuneration

The eight executive Directors of the Agency, three of whom served throughout the year, received the following aggregate remuneration:

	2020	2019
	£m	£m
Aggregate remuneration in respect of qualifying services	1.4	1.4

The active underwriter received the following remuneration charged as a Syndicate expense:

	2020	2019
	£m	£m
Aggregate remuneration in respect of qualifying services	0.2	0.6

The highest paid Director received the following remuneration charged as a Syndicate expense:

	2020	2019
	£m	£m
Aggregate remuneration in respect of qualifying services	0.4	0.6

No advances or credits granted by the Agency to any of its Directors subsisted during the year. This includes non-cash benefits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Calendar Year Investment Yield

The average amount of Syndicate funds available for investment during the year and the investment income (interest income and realised gains/(losses)) and yield for the year were as follows:

	2020	2019
	£m	£m
Average Syndicate funds available		
Sterling and other	32.3	28.1
Euro	23.7	44.3
United States dollars	107.7	204.1
Canadian dollars	11.8	19.0
Australian dollars	17.5	19.5
	193.0	315.0
Investment income for the year		
Sterling and other	0.3	0.3
Euro	0.2	0.3
United States dollars	3.9	3.6
Canadian dollars	0.6	0.3
Australian dollars	0.4	0.5
	5.4	5.0
Analysis of calendar year investment yield by fund	%	%
Sterling and other	1.04	1.38
Euro	0.41	0.60
United States dollars	1.96	1.77
Canadian dollars	2.86	1.58
Australian dollars	1.76	2.46
Combined	1.71	1.60

“Average funds” is the average of bank balances, overseas deposits and investments held at the end of each month during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Financial Investments

	Carrying value 2020 £m	Carrying value 2019 £m (Restated)	Purchase price 2020 £m	Purchase price 2019 £m (Restated)
Shares and other variable yield securities	34.8	11.5	34.8	11.5
Debt securities and other fixed-income securities	263.4	225.1	256.8	224.4
Overseas deposits as investments	25.5	26.4	25.5	26.4
	323.7	263.0	317.1	262.3

All “Shares and other variable yield securities” and “Debt securities and other fixed-income securities” are listed and are designated at fair value through profit or loss. These comprise 100.0% (2019: 100.0%) of the total market value of the Syndicate's financial investments.

There was no material change in fair value for financial investments held at fair value attributable to credit risk in the current or comparative period.

There have been no day 1 profits recognised in respect of financial investments designated at fair value through profit or loss.

In the previous years, all overseas deposits were recognised as other deposits as a separate line item in the Statement of Financial Position. During the current year, management has taken a decision to classify overseas deposits which are of investment in nature as financial investments, as this reflects a more accurate presentation in the Annual Accounts. This resulted in other deposits amounting to £25.5m being reclassified to financial investments. Accordingly, the comparative information has been restated to reflect the change in accounting policy resulting in restating overseas deposits amounting to £26.4m from other deposits to financial investments. This change in accounting policy has no impact on Income Statement, Statement of Cash Flows or Members Balance of the Syndicate.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

31 December 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities	30.1	-	4.7	34.8
Debt securities and other fixed-income securities	69.3	194.1	-	263.4
Overseas deposits as investments	-	25.5	-	25.5
	99.4	219.6	4.7	323.7

31 December 2019 (Restated)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities	10.5	-	1.0	11.5
Debt securities and other fixed-income securities	70.6	154.5	-	225.1
Overseas deposits as investments	-	26.4	-	26.4
	81.1	180.9	1.0	263.0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Financial Investments (continued)

Included in the Level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions.

Included in the Level 3 category are financial assets for which market data is unavailable. These relate to loans made to Lloyd's Central Fund which have been valued at cost since the assessed fair value is not materially different.

The Agency measures the fair value of the Syndicate financial assets monthly based on prices provided by third party investment managers New England Asset Management (who obtain market data from independent pricing services). The pricing services used by the third party investment manager obtain the actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models.

10 Financial Instruments

A breakdown of how the Syndicate's financial instruments are measured is given below:

	2020	2019
	£m	£m
		(Restated)
Financial assets at fair value through profit or loss		
Shares and other variable yield securities and units in unit trusts	34.8	11.5
Debt securities and other fixed-income securities	263.4	225.1
Overseas deposits as investments	25.5	26.4
Financial assets that are debt instruments measured at amortised cost		
Debtors arising out of direct insurance operations - intermediaries	72.6	69.9
Debtors arising out of reinsurance operations	106.0	165.7
Other debtors	2.2	3.2
Cash at bank and in hand	18.1	21.1
Other deposits	5.7	10.6
Financial liabilities measured at amortised cost		
Creditors arising out of direct insurance operations - intermediaries	2.2	0.4
Creditors arising out of reinsurance operations	101.0	182.4
Other creditors	8.6	3.3

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Provisions for Unearned Premiums

2020	Gross	Reinsurer's share	Net
	£m	£m	£m
At 1 January 2020	147.0	(69.7)	77.3
Premiums written in the year	269.8	(53.1)	216.7
Premiums earned in the year	(284.4)	72.4	(212.0)
Other balance sheet transfers	-	(1.0)	(1.0)
Foreign exchange	(2.2)	2.7	0.5
At 31 December 2020	130.2	(48.7)	81.5

2019			
At 1 January 2019	194.3	(127.5)	66.8
Premiums written in the year	357.0	(165.1)	191.9
Premiums earned in the year	(398.2)	219.7	(178.5)
Other balance sheet transfers	-	-	-
Foreign exchange	(6.1)	3.2	(2.9)
At 31 December 2019	147.0	(69.7)	77.3

12 Claims outstanding

2020	Gross	Reinsurer's share	Net
	£m	£m	£m
At 1 January 2020	821.6	(503.8)	317.8
Claims incurred in the current accident year	157.3	(61.8)	95.5
Claims incurred in the prior accident years	89.1	4.0	93.1
Claims paid during the year	(263.9)	119.8	(144.1)
Other balance sheet transfers	-	47.8	47.8
Foreign exchange	(9.2)	3.1	(6.1)
At 31 December 2020	794.9	(390.9)	404.0

2019			
At 1 January 2019	830.4	(521.0)	309.4
Claims incurred in the current accident year	220.7	(144.1)	76.6
Claims incurred in the prior accident years	127.3	(92.7)	34.6
Claims paid during the year	(327.1)	234.7	(92.4)
Other balance sheet transfers	-	-	-
Foreign exchange	(29.7)	19.3	(10.4)
At 31 December 2019	821.6	(503.8)	317.8

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Debtors Arising out of Direct Insurance Operations

	2020	2019
	£m	£m
Due within one year - intermediaries	72.6	69.9

14 Cash at Bank and in Hand and Other Deposits

	2020	2019
	£m	£m
		(Restated)
Cash at bank and in hand	18.1	21.1
Other deposits	5.7	10.6
	23.8	31.7

Other deposits comprise of overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

Cash and cash equivalents amount to £23.8m (2019: £58.1m). This comprises cash at bank and in hand, other deposits as reported above and short-term investments amounting to £nil (2019: £26.3m).

15 Deferred Acquisition Costs

	2020	2019
	£m	£m
At 1 January	31.7	49.0
Change in deferred acquisition costs (note 5)	(6.8)	(16.1)
Foreign exchange	(0.3)	(1.2)
At 31 December	24.6	31.7

16 Other Prepayments and Accrued Income

	2020	2019
	£m	£m
Accrued interest on investments	1.2	1.2
Prepayments	0.4	0.5
Managing Agency expenses	0.1	0.1
	1.7	1.8

Managing Agency expenses represent members' subscriptions and fees and other expenses paid to Lloyd's which will be recovered from the Agency after the relevant reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Creditors Arising out of Direct Insurance Operations

	2020	2019
	£m	£m
Due to intermediaries	2.2	0.4

18 Creditors Arising out of Reinsurance Operations

	2020	2019
	£m	£m
Due to SPA 6118	12.1	69.0
Due to SPA 6132	36.7	27.8
Due to Syndicate 1856	2.2	12.9
Due to external reinsurers	50.0	72.7
	101.0	182.4

The balances relating to SPAs represent the amounts ceded from the Syndicate on a funds withheld basis.

19 Risk Management

a. Governance Framework

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

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

The Agency Board approves risk management policies relevant to the Syndicate and meets regularly to approve any commercial, regulatory and organisational requirements of such policies and their implementation. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

Significant emphasis is placed on the assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

b. Capital Management Objectives, Policies and Approach

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

c. Approach to Capital Management

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

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

The primary sources of capital used by the Syndicate are members' balances.

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

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

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

d. Capital Resources Requirement

The Syndicate is subject to capital requirements imposed by Lloyd's. Throughout the year the Syndicate has complied with the Lloyd's risk based LIM methodology under Solvency II, which is used to calculate the Syndicate's capital requirement. Lloyd's capital setting uses a capital requirement set at Syndicate level as a starting point, but the requirement to meet Solvency II & Lloyd's capital requirements applies at member level only. Accordingly, the capital requirement of Syndicate 1955 is not disclosed in these financial statements.

e. Solvency II Capital Requirements

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

e. Solvency II Capital Requirements (continued)

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

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

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

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

The Syndicate submitted its Quarterly Solvency Return (QSR) for 31 December 2020 to Lloyd's on 21 January 2021. The Annual Solvency Return (ASR) for 31 December 2020 is due to Lloyd's on 11 March 2021.

f. Insurance Risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

f. Insurance Risk (continued)

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

- Stamp capacity was £276.5m for the 2020 Year of Account (2019: £263.5m);
- Maximum realistic disaster scenario net exposure for the 2020 Year of Account of 14.0% of stamp capacity (2019 Year of Account: 14.6%); and
- Usual maximum gross line size for 2020 of £39.0m (2019: £38.5m).

Claims

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

SPA Cessions

The Syndicate has taken out quota share contracts with SPA 6118 and SPA 6132. The contracts operate on a "funds withheld basis" whereby the proportion of the ceded premiums are considered as combined funds from which loss recoveries will be drawn. The associated cash flows are expected to occur following the closure of the years of account at 36 months.

RITC

The 2018 & prior reserves have been RITC'd to an external party as at 1 January 2021. This will have the effect of reducing the risk borne by Syndicate 1955.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

· Insurance Risk (continued)

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

Gross insurance ultimate contract outstanding claims provisions as at 31 December 2020:

Underwriting Year	2014 & Prior	2015	2016	2017	2018	2019	2020	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate gross claims:								
At end of underwriting year	1,005.0	215.5	236.7	353.6	268.7	206.5	208.1	208.1
One year later	1,020.7	228.1	268.4	371.4	316.2	236.6	-	236.6
Two years later	1,019.3	222.8	295.6	421.3	320.8	-	-	320.8
Three years later	1,010.5	219.9	302.8	420.3	-	-	-	420.3
Four years later	1,002.2	229.9	312.1	-	-	-	-	312.1
Five years later	979.5	227.7	-	-	-	-	-	227.7
Six years later	984.7	-	-	-	-	-	-	984.7
Current estimate of ultimate claims								2,710.3
Cumulative payments								(1,789.2)
Gross unearned claims reserve								(126.2)
Gross claims reserve	-	-	-	-	-	-	-	794.9

Net insurance ultimate contract outstanding claims provisions as at 31 December 2020:

Underwriting Year	2014 & Prior	2015	2016	2017	2018	2019	2020	Total
Estimate of ultimate net claims:	£m	£m	£m	£m	£m	£m	£m	£m
At end of underwriting year	656.2	102.5	78.4	82.2	76.9	98.1	109.0	109.0
One year later	652.9	106.9	96.4	89.3	85.5	110.6	-	110.6
Two years later	647.9	114.1	105.2	94.7	90.2	-	-	90.2
Three years later	651.1	114.0	103.6	143.4	-	-	-	143.4
Four years later	619.9	115.8	140.7	-	-	-	-	140.7
Five years later	619.8	129.3	-	-	-	-	-	129.3
Six years later	628.7	-	-	-	-	-	-	628.7
Current estimate of ultimate claims								1,351.9
Cumulative payments								(888.7)
Net unearned claims reserve								(59.2)
Net claims reserve	-	-	-	-	-	-	-	404.0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

f. Insurance Risk (continued)

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

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

31 December 2020	Change in Assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit for the year and members' balances
		£m	£m	£m
Average claim cost	+10%	78.8	36.1	(36.1)
Average number of claims	+10%	78.8	39.4	(39.4)

31 December 2019	Change in Assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit for the year and members' balances
		£m	£m	£m
Average claim cost	+10%	81.6	24.7	(24.7)
Average number of claims	+10%	81.6	30.7	(30.7)

The Syndicate has gross material exposure to COVID 19 and the Tennessee tornado, in the 2020 Year of Account. The net exposure to these losses is also material. Last year, the Syndicate had material gross exposure to Typhoon Hagibis and Typhoon Faxai. During the year, the exposure to Typhoon Hagibis has deteriorated on a gross basis, but net exposure is not material. This increases the uncertainty in an adverse direction significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. By performing sensitivity analysis on the losses pertaining to these loss events, it was determined that a 10% increase on the gross reserves will have a minimal impact on the net reserves due to the reinsurance programme covering the affected classes of business. The Syndicate also has material exposure to COVID 19 on the 2019 Year of Account. This will have a minimal impact on the net reserves due to the reinsurance programme covering the affected classes of business. The Syndicate does not have any material exposure to these losses on any of the older years of account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

f. Insurance Risk (continued)

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

The following table shows hypothetical claims arising for the largest realistic disaster scenarios based on the Syndicate's average risk exposures during 2020.

	Estimated gross loss	Estimated net loss
	$m	$m
US earthquake	131.0	27.0
US windstorm	192.0	39.0
Japan earthquake	57.0	8.0
Japan windstorm	35.0	8.0
Europe windstorm	34.0	8.0

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

	Estimated gross loss	Estimated net loss
	$m	$m
US earthquake	132.0	20.0
US windstorm	81.0	51.0
Japan earthquake	57.0	8.0
Japan windstorm	37.0	2.0
Europe windstorm	34.0	3.0

Estimated net loss amounts are after cessions to the SPAs.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

f. Insurance Risk (continued)

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

31 December 2020	Gross liabilities	Reinsurance assets	Net liabilities
	£m	£m	£m
Energy - marine	5.6	(3.6)	2.0
Energy - non-marine	49.7	(35.1)	14.6
Marine, aviation and transport	168.7	(93.9)	74.8
Fire and other damage to property	125.7	(97.6)	28.1
Third party liability	426.2	(152.1)	274.1
Accident and health	12.8	(3.9)	8.9
Pecuniary loss	6.2	(4.7)	1.5
Total	794.9	(390.9)	404.0

31 December 2019	Gross liabilities	Reinsurance assets	Net liabilities
	£m	£m	£m
Energy - marine	25.7	(20.1)	5.6
Energy - non-marine	59.8	(44.4)	15.4
Marine, aviation and transport	199.9	(136.4)	63.5
Fire and other damage to property	115.4	(92.2)	23.2
Third party liability	404.2	(201.0)	203.2
Accident and health	5.7	(2.1)	3.6
Pecuniary loss	10.9	(7.6)	3.3
Total	821.6	(503.8)	317.8

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

At 31 December 2020	Gross liabilities	Reinsurance assets	Net liabilities
	£m	£m	£m
United Kingdom	282.6	(132.0)	150.6
EU Member States	109.7	(53.0)	56.7
USA	205.3	(106.3)	99.0
Rest of the World	197.3	(99.6)	97.7
Total	794.9	(390.9)	404.0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

f. Insurance Risk (continued)

At 31 December 2019	Gross liabilities	Reinsurance assets	Net liabilities
	£m	£m	£m
United Kingdom	354.7	(213.7)	141.0
EU Member States	87.2	(51.5)	35.7
USA	188.2	(122.0)	66.2
Rest of the World	191.5	(116.6)	74.9
Total	821.6	(503.8)	317.8

g. Credit Risk

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

Credit risk is not limited to those risks arising in insurance but also in financial investments where the Syndicate is exposed to potential failure by investment counterparties.

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

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

Investment performance is overseen by the Investment Committee.

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

Credit risk from exposure to investment counterparties is controlled by operating to very prudent investment guidelines. Investments are managed by a third party investment manager, appointed under the terms of an Investment Management Agreement. The Syndicate’s maximum exposure to credit risk to the assets below at 31 December 2020 and 2019 is the carrying amount as presented in note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

g. Credit Risk (continued)

The Agency's policy is that the Syndicate generally reinsures with businesses rated A- or higher by one or more rating agencies. The Syndicate only uses reinsurers with lower ratings or that are completely unrated where collateral or a claims paying guarantee from a parent undertaking is provided. As at 31 December 2020, the Syndicate had received £95.3m of collateral (2019: £96.0m).

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

At 31 December 2020	Government/ AAA	AA	A and below	Unrated	Total
	£m	£m	£m	£m	£m
Financial investments	151.5	75.5	90.1	6.6	323.7
Other deposits	-	-	5.7	-	5.7
Cash at bank and in hand	-	-	18.1	-	18.1
Reinsurers' share of claims outstanding	-	48.3	319.0	23.6	390.9
Debtors arising out of reinsurance operations	-	2.0	103.1	0.9	106.0
Total	151.5	125.8	536.0	31.1	844.4

At 31 December 2019	Government/ AAA	AA	A and below	Unrated	Total
(Restated)	£m	£m	£m	£m	£m
Financial investments	42.9	122.0	96.3	1.8	263.0
Other deposits	-	-	-	10.6	10.6
Cash at bank and in hand	-	-	21.1	-	21.1
Reinsurers' share of claims outstanding	-	35.8	424.8	43.2	503.8
Debtors arising out of reinsurance operations	-	17.0	137.4	11.3	165.7
	42.9	174.8	679.6	66.9	964.2

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

The Syndicate does not consider that there is a significant concentration of risk with respect to its insurance receivables accounts. Of the total assets, none (2019: £nil) has been impaired.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

g. Credit Risk (continued)

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

At 31 December 2020	Neither past due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£m	£m	£m	£m	£m	£m
Financial investments	323.7	-	-	-	-	323.7
Other deposits	5.7	-	-	-	-	5.7
Reinsurers' share of claims outstanding	390.9	-	-	-	-	390.9
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	55.5	0.3	0.3	3.1	-	59.2
Reinsurance recoverables on paid claims	-	10.8	11.2	18.8	6.0	46.8
Cash at bank and in hand	18.1	-	-	-	-	18.1
Insurance debtors	27.4	18.1	15.0	12.1	-	72.6
Other debtors	70.9	2.1	3.1	4.4	-	80.5
Total	892.2	31.3	29.6	38.4	6.0	997.5

At 31 December 2019	Neither past due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
(Restated)	£m	£m	£m	£m	£m	£m
Financial investments	263.0	-	-	-	-	263.0
Other deposits	10.6	-	-	-	-	10.6
Reinsurers' share of claims outstanding	503.8	-	-	-	-	503.8
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	73.0	1.1	1.7	2.3	-	78.1
Reinsurance recoverables on paid claims	-	45.3	23.2	15.8	3.3	87.6
Cash at bank and in hand	21.1	-	-	-	-	21.1
Insurance debtors	24.7	18.1	15.0	12.1	-	69.9
Other debtors	109.7	-	-	-	-	109.7
Total	1,005.9	64.5	39.9	30.2	3.3	1,143.8

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

h. Market Risk

Market risk is defined as the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business. This includes the possibility that changes in market factors, foreign currency exchange rates or interest rates will adversely affect the value of the Syndicate's financial assets, liabilities or expected future cash flows.

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

i. Foreign Currency Risk

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

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

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

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

At 31 December 2020	GBP	US $	Euro €	CAD $	Other	Total
	£m	£m	£m	£m	£m	£m
Reinsurance assets	44.7	330.3	30.0	3.7	30.9	439.6
Insurance & reinsurance receivables	36.6	117.8	9.0	1.8	13.4	178.6
Financial investments	22.9	223.8	35.2	21.4	20.4	323.7
Cash and other deposits	9.7	0.7	7.4	-	6.0	23.8
Other debtors	9.0	19.2	1.6	0.5	1.5	31.8
Total assets	122.9	691.8	83.2	27.4	72.2	997.5
Technical provisions	(116.5)	(621.9)	(72.6)	(14.2)	(99.9)	(925.1)
Insurance & reinsurance payables	2.7	(93.6)	(5.5)	(1.6)	(5.2)	(103.2)
Other creditors	(9.5)	(3.5)	(0.2)	(0.1)	(0.2)	(13.5)
Total Liabilities	(123.3)	(719.0)	(78.3)	(15.9)	(105.3)	(1,041.8)
Members' balances	(0.4)	(27.2)	4.9	11.5	(33.1)	(44.3)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

i. Foreign Currency Risk (continued)

At 31 December 2019 (Restated)	GBP £m	US $ £m	Euro € £m	CAD $ £m	Other £m	Total £m
Reinsurance assets	68.3	420.1	50.0	5.7	29.4	573.5
Insurance & reinsurance receivables	43.8	178.4	7.0	(1.9)	8.3	235.6
Financial investments	3.1	186.3	34.8	18.5	20.3	263.0
Cash and other deposits	23.6	0.4	3.0	-	4.7	31.7
Other debtors	13.2	22.3	2.2	0.6	1.7	40.0
Total assets	152.0	807.5	97.0	22.9	64.4	1,143.8
Technical provisions	(141.5)	(639.3)	(86.5)	(14.0)	(87.3)	(968.6)
Insurance & reinsurance payables	(6.6)	(149.5)	(16.0)	(2.1)	(8.6)	(182.8)
Other creditors	(6.1)	(4.1)	(0.5)	(0.1)	(0.3)	(11.1)
Total Liabilities	(154.2)	(792.9)	(103.0)	(16.2)	(96.2)	(1,162.5)
Members' balances	(2.2)	14.6	(6.0)	6.7	(31.8)	(18.7)

j. Sensitivity Analysis

Sensitivity analysis is carried out on the underwriting/investment portfolio in relation to key parameters such as: exchange rates, market rating cycles, coverage cycles and catastrophe model output. At 31 December 2020, the Syndicate used closing rates of exchange of £1: $1.37 and £1: €1.12 (31 December 2019: £1: $1.32 and £1: €1.18).

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

Increase/(decrease) on members' balances	2020 £m	2019 £m
Strengthening of US dollar	(3.0)	1.7
Weakening of US dollar	2.5	(1.4)
Strengthening of Euro	0.5	(0.7)
Weakening of Euro	(0.4)	0.5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

j. Sensitivity Analysis (continued)

The following table shows the average duration at the reporting date of financial instruments held by the Syndicate.

At 31 December 2020	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs	Total
	£m	£m	£m	£m	£m
Financial assets at fair value through profit	88.2	104.8	95.2	35.5	323.7
Deposits with credit institutions	5.7	-	-	-	5.7
Cash at bank and in hand	18.1	-	-	-	18.1
Total	112.0	104.8	95.2	35.5	347.5

At 31 December 2019	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs	Total
(Restated)	£m	£m	£m	£m	£m
Financial assets at fair value through profit	90.6	80.7	84.9	6.8	263.0
Deposits with credit institutions	10.6	-	-	-	10.6
Cash at bank and in hand	21.1	-	-	-	21.1
Total	122.3	80.7	84.9	6.8	294.7

The Syndicate holds financial assets that are exposed to interest rate risk. Changes in interest yields, with all other variables constant, would result in changes in the capital value of debt securities. This would affect reported profits and members' balances as indicated in the stress test below. This is applied to the position as at 31 December 2020 and takes into account the full effect of mark to market movements, but without recognising any running yield benefit.

	Impact on profit		Impact on members' balances	
	2020	2019	2020	2019
	£m	£m	£m	£m
Shift in yield (basis points)				
50 basis points decrease	2.7	1.8	2.7	1.8
50 basis points increase	(2.0)	(1.8)	(2.0)	(1.8)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

k. Liquidity Risk

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

The Agency's liquidity risk policy covers only those aspects of liquidity risk which do not fall under the heading of insurance risks. Broadly, it is the management of risk arising from short-term cash· flows, rather than the risk arising from longer term matching of assets and liabilities. Nevertheless, it covers the risk of shock loss events and the risk of having insufficient liquid funds to settle liabilities.

Liquidity risk arises if assets prove to be worth substantially less than anticipated when they have to be realised i.e. there is a mismatch between planning to realise assets and actual events.

Liquidity risk is closely related to market and credit risks though these are covered by separate risk policies. Market risk arises where the value of the fund/investments proves to be significantly less than anticipated due to deterioration/flux in the general economy or from currency exchange rate movement. The credit risk policy seeks to ensure that the Syndicate is in a position to meet all payments as they fall due by ensuring that inwards funds are paid promptly.

Additionally, the Syndicate aims to maintain minimum and maximum amounts of its investments in near liquid funds and/or cash and cash equivalents. The Syndicate also has a revolving credit facility available through its bankers. These safeguards are intended to ensure that financial obligations can be met as they fall due. The guidelines provided to the third party investment managers include the spread and maturity of investments so that funds can be realised if needed without having to break deposits or sell investments.

Future Cash Flows

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

At 31 December 2020	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs	Total
	£m	£m	£m	£m	£m
Claims outstanding	218.9	252.5	142.8	180.7	794.9
Creditors arising out of reinsurance operations	68.6	32.4	-	-	101.0
Creditors arising out of direct operations	2.2	-	-	-	2.2
Other creditors	-	-	-	-	-
Total	289.7	284.9	142.8	180.7	898.1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

k. Liquidity Risk (continued)

At 31 December 2019	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs	Total
	£m	£m	£m	£m	£m
Claims outstanding	182.7	281.0	173.6	184.3	821.6
Creditors arising out of reinsurance operations	126.0	56.4	-	-	182.4
Creditors arising out of direct operations	0.4	-	-	-	0.4
Other creditors	-	-	-	-	-
Total	309.1	337.4	173.6	184.3	1,004.4

l. Operational Risk

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

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

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

m. Group Risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

n. Risk Arising out of the COVID-19 Pandemic

Throughout 2020 the COVID-19 pandemic has continued to develop leading to increased uncertainty in the market. The level of CAT exposure in respect of COVID-19 for the Syndicate is considered material and continues to be monitored closely. Following the Supreme Court's final judgement on the FCA's business interruption test case, which substantially allowed the FCA's appeal on behalf of policy holders, the COVID-19 reserves held by the Syndicate were reviewed in light of the updated court ruling and found be appropriate. As the claims experience continues to develop, the reserves continue to be subject to ongoing review.

In addition to the reserve risk arising out of the COVID-19 pandemic, there is also an increased probability of further risks arising out of the COVID-19 pandemic. These risks include second order impacts on the economy, the insurance industry and individual classes of business, such as interest rate and currency volatility, increased risk of security defaults and an increased risk of inability to bind business. As the Syndicate continues to be closely currency matched, the exposure to currency volatility is significantly reduced, whilst the interest rate risk continues to be monitored in conjunction with the investment manager. To date, no increase in security defaults have been observed or notified by the investment manager but the investment committee continues to monitor the performance of the Syndicate's investment portfolio. Lastly, the transition to working fully digitally has been successful with the ability to successfully bind business not being impacted by the COVID-19 pandemic.

The operational risks to the Syndicate arising out of the COVID-19 pandemic broadly fall within two categories:

a) Maintaining the operating effectiveness of risk and control procedures;

b) Ensuring efficiency and effectiveness of staff working 100% remotely.

To ensure the operating effectiveness of the Syndicate's risk and control procedures, the risk function performed an in-depth review of the risk and control procedures in conjunction with the business. The review focused on whether, and to what extent, business risks had changed as a result of the pandemic and whether the effectiveness of any controls would be compromised due to staff working 100% remotely. The review concluded that on the whole operational risk had not materially increased due to the pandemic and that the business was able to function broadly as prior to the COVID-19 outbreak. The impact on risk and controls continues to be monitored.

During the early stages of the COVID-19 pandemic, a working from home policy was implemented across all UK staff and offices closed ahead of the government mandated action. The policy continuities to be revised to align with the latest government advice.

To enable a successful remote working environment, new IT initiatives were rolled out to facilitate better communication, positively impacting team collaboration whilst additional IT equipment was sourced to provide conducive home working environments.

Whilst there have not been no reports of significant infection rates amongst Arch staff, with limited impact on workforce productivity, infection rates continue to be monitored on an ongoing basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Risk Management (continued)

o. Dependencies between Risk Categories

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

- A major loss event could lead to widespread failures within the reinsurance market. The loss would need to be very large since the reinsurance market, particularly that part of the market to which the Syndicate is exposed, has in the past shown itself to be robust enough to withstand losses such as World Trade Centre and major hurricane losses.

- There are a number of operational risks that have the potential to correlate with major natural catastrophe losses. For example, the consequences of inadequately monitoring liquidity are only likely to be suffered should there be a significant call on liquidity (likely to happen after a major loss event).

Major loss events may have an effect on investment markets; however, the effect tends to be felt principally in the equity markets to which the Syndicate has no current direct exposure.

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

20 Related Parties

a. SPA and Syndicate 1856 Cessions

The Syndicate has ceded reinsurance to SPA 6118 and SPA 6132 on a funds withheld basis.

For the 2018 Year of Account, the Syndicate ceded 33.9% across all classes to SPA 6118 which amounted to £131.1m. The Syndicate ceded 10.9% across all classes to SPA 6132 which amounted to £42.2m. The cessions for SPA 6118 and SPA 6132 were calculated on the Syndicate's result net of external reinsurance. The Syndicate also ceded 9.7% across all classes to Syndicate 1856 for the 2018 Year of Account.

The Syndicate received a premium refund from Syndicate 1856 amounting to £49.1m as a result of commuting the whole account quota share contract relating to 2017 and prior years of account into the Syndicate's 2018 Year of Account. This transaction was settled during the year.

For the 2019 Year of Account, the Syndicate did not take up a whole account quota share with SPA 6118. The Syndicate ceded 15.2% across all classes and an additional 5% on Financial Institutions and Cyber classes, to SPA 6132, which amounted to £48.2m.

For the 2020 Year of Account, the Syndicate ceded 15.5% across all classes to SPA 6132 and an additional 5% on Financial Institutions and Cyber classes, on a funds withheld basis, which amounted to £40.9m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Related Parties (continued)

a. SPA and Syndicate 1856 Cessions (continued)

A summary of premiums ceded during the year from the Syndicate to the SPAs and Syndicate 1856, and the creditor balance held with each of them is given below:

	Reinsurance premium ceded	Reinsurance creditor	Reinsurance premium ceded	Reinsurance creditor
	2020	2020	2019	2019
	£m	£m	£m	£m
SPA 6118	(6.2)	12.1	16.2	69.0
SPA 6132	40.2	36.7	35.3	27.8
Syndicate 1856	-	2.2	4.3	12.9
Total	34.0	51.0	55.8	109.7

These balances are unsecured and are expected to be settled in cash.

b. Key Management Personnel Compensation

The key management personnel are deemed to be the Directors of the Agency and the Active Underwriter.

The Directors' and active underwriter's remuneration has been disclosed separately in note 7 to the financial statements.

c. Arch Companies

The Syndicate, SPA 6118 and SPA 6132, is managed by the Agency, whose parent company is Arch Europe Insurance Services Ltd. The ultimate parent company is ACGL, a Bermuda registered company which consolidates the Syndicate result.

As at the end of 2020, the Syndicate had an outstanding debtor balance with ACGL of £Nil (2019: £0.2m). A Managing Agency fee of £2.3m (2019: £2.2m) was payable from the Syndicate to the Agency during the year. The Agency recharged the Syndicate £21.3m (2019: £16.2m) of expenses during the year, in respect of staff costs, consortia income and other expenses.

During 2020, the following Group companies contributed towards the Syndicate's Gross written premium: Barbican Protect Limited wrote £nil (2019: £0.1m) with an outstanding debtor balance of £nil (2019: £0.1m); Castel Underwriting Agencies Limited wrote £7.6m (2019: £12.4m) with an outstanding debtor balance of £6.5m (2019: £8.5m); Barbican Channel Islands (a trading name of BRCL) wrote £nil (2019: £nil) with an outstanding debtor balance of £nil (2019: £0.1m); Seacurus wrote £nil (2019: £nil) with an outstanding debtor balance of £nil (2019: £0.2m) and Arch Re Europe wrote £8.0m (2019: £nil) with an outstanding debtor balance of £nil (2019: £nil).

During 2020, Syndicate 1955 entered into an outwards reinsurance contract with Arch Re Ltd which resulted in ceded written premium of £23.4m (2019: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Funds at Lloyd's

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

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

The transfer to the member in respect of underwriting participation represents the loss distribution in respect of the closing of the 2018 Year of Account of £6.2m made during 2020 (2019: loss distribution of £6.9m in respect of the 2017 Year of Account).

22 Off-Statement of Financial Position items

As at 31 December 2020, the Syndicate had received £95.3m of collateral (2019: £96.0m) from reinsurers with ratings lower than A-. Further details of these arrangements have been provided in notes 1d and 19g.

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

23 Derivatives

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

24 Post Reporting Date Events

On February 18, 2021, AMAL on behalf of the Members' of Syndicate 1955 entered into an agreement with Premia Managing Agency Limited for the Reinsurance to Close (RITC) of Syndicate 1955's 2018 underwriting Year of Account into Premia Syndicate 1884's 2021 Year of Account. The RITC covers legacy business underwritten by Syndicate 1955 on the underwriting 2018 and prior years of account and under the agreement, approximately £286 million of year end net liabilities of Syndicate 1955 transferred to Syndicate 1884.

Arch owns approximately 25% of Premia as well as warrants to purchase additional common equity and has two directors to serve on the seven person board of directors of Premia.

On 4 January 2021, the Syndicate transferred across £7.2m to Lloyd's Brussels as advance claims settlement funds as part of the Part VII arrangement. This transaction will be reflected as a deposit with ceding undertaking on the Syndicates statement of financial position going forward.

To the Agency's knowledge, there are no post reporting date events that have occurred which would have a material impact on these annual accounts.