Accounts disclaimer

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

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

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

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

Coverys Managing Agency Limited

Report and Financial Statements
Syndicate 1975
for the year ended
31 December 2021

Administration

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

Registered Number:
04690709

Syndicate:
Active Underwriter
V Minetti

Bankers
Barclays Bank plc
1 Churchill Place
London E14 5HP

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

Managing Agent's report

Coverys Managing Agency Limited (trading as "Coverys at Lloyd's") presents its report for syndicate 1975 for the year ended 31 December 2021.

Strategic report
The managing agent's report should be read in conjunction with the strategic report as it includes information required to be disclosed in the managing agent's report. This information is primarily relating to a review of the business and a description of principal risks and uncertainties, although there is more extensive disclosure of risk management on page 22.

Directors

The directors of the managing agent who served during the year ended 31 December 2021 and up to the date of this report were as follows:

E B Bagley	Group non-executive director
M Bell	Executive director
C D Charles	Non-executive director
A G Chopourian	Executive director – resigned 30 November 2021
S A Davies	Non-executive director – appointed 15 January 2021
R D Forster	Executive director
D W Hipkin	Non-executive chairman
J Marshall	Secretary
R E McCoy	Executive director – resigned 1 July 2021
T C Mills	Group non-executive director
D T Wright	Executive director – resigned 11 January 2021

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

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

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

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

Robert Forster
Chief Executive Officer
3 March 2022

Strategic report

The directors of Coverys at Lloyd's present their strategic report for syndicate 1975 for the year ended 31 December 2021.

Principal activity and review of the business

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

2021 was the first full year of underwriting for Valentina Minetti as Active Underwriter. Under her leadership the underwriting team has achieved a GWP of £55.8m for the 2021 year of account against a budget of £58.2m. The syndicate also delivered all aspects of the plan including reduced acquisition costs and favourable risk adjusted rate change and pricing adequacy. The net combined ratio was 98.3% which is again an improvement on forecast.

COVID-19

The reserves established in 2020 have proved to be adequate and we have been able to make releases during 2021, especially on the 2018 and 2019 years of account, which are now reinsured under a Loss Portfolio Transfer arrangement.

Loss Portfolio Transfer (LPT)

An LPT has been put into place in December 2021 reinsuring the loss reserves on the 2018 and 2019 years of account to Medical Professional Mutual Insurance Company. This will provide stability to the Syndicate on any future loss movements on the prior years. The premium cost to the Syndicate was £28.0m which provided an equivalent reinsurance recovery.

Key Performance Indicators

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

	2021	*2020*
Gross premiums written	*£51.7m*	*£54.7m*
Loss for the year	*(£0.2m)*	*(£21.1m)*
Net combined ratio	*98%*	*154%*

Results

The result for the year is a loss of £0.2m.

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

	2021 account	*2020 account*	*2019 account*
Gross premiums written	*£51.3m*	*£56.2m*	*£39.3m*
Profit / (Loss)	*£7.3m*	*(£5.3m)*	*(£6.6m)*
Net combined ratio	*95%*	*112%*	*201%*

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

Strategic report (continued)

Future Developments

The syndicate is ongoing and has a £50m stamp capacity approved by Lloyd's as part of the 2022 year of account Syndicate Business Forecast process. Following approval of the 2022 SBF by Lloyd's, Coverys at Lloyd's has decided to cease underwriting through the syndicate after 2022. Our ambitious growth plans require a flexible approach and the ability to plan for the long term. To achieve our goals, we are forming a new platform to allow additional options and capacity for our clients.

Post Balance sheet events

There have been no relevant post balance sheet events.

Other performance indicators

Staff matters

The managing agent considers the staff that it utilises from its sibling company, Coverys MA Services Ltd, to be a key resource and seeks to provide a good working environment that is rewarding and safe and complies with appropriate employee legislation. Recognising that culture, values and standards underpin how the Company creates and sustains value, in 2020, it developed with staff consultation, a set of Core Values to help guide the Company's decision-making and thereby promote its success. The Core Values continued to be embedded during 2021 and have been a factor in shaping the Company's ongoing response to the COVID-19 pandemic. In H2 2021, it developed and implemented a Hybrid Working Policy, which recognises and embraces the shift in working patterns to facilitate both in-office and virtual arrangements for staff.

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

Environmental matters

The managing agent does not consider its business to have a large adverse impact upon the environment. As a result, the agent does not manage its underwriting business by reference to any environmental key performance indicators.

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

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

Robert Forster
Chief Executive Officer
3 March 2022

Statement of managing agent's responsibilities

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

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

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

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

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

Independent auditors' report to the member of Syndicate 1975

Report on the audit of the syndicate annual accounts

Opinion

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

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet – Assets and the Balance sheet – Liabilities as at 31 December 2021; the Statement of profit or loss: Technical account – general business, the Statement of profit or loss: Non-technical account, the Statement of other comprehensive income, the Statement of cash flows, and the Statement of changes in members balances for the year then ended; the Statement of accounting policies, Risk management and the notes to the syndicate annual accounts.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 3, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

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

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

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

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

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

Reporting on other information

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

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

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

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

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's report for the year ended 31 December 2021 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

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

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journals to increase revenue or reduce expenditure or to manipulate member's balances. We also considered management bias in accounting estimates and judgemental areas of the syndicate annual accounts such as the valuation of the technical provision for claims outstanding and estimated premium income. Audit procedures performed by the engagement team included:

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

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

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Andrew Box (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
03 March 2022

Statement of profit or loss
Technical account – general business
Year ended 31 December 2021

	Notes	2021 £000	2021 £000	2020 £000	2020 £000
Earned premiums, net of reinsurance					
Gross premiums written	1	51,747		54,682	
Outward reinsurance premiums		(30,095)		(3,801)	
Net premiums written			21,652		50,881
Change in provision for unearned premiums:					
Gross amount		214		(6,482)	
Reinsurers' share		(366)		722	
Change in the net provision for unearned premiums			(152)		(5,760)
Earned premiums, net of reinsurance			21,500		45,121
Allocated investment return transferred from the non-technical account			(353)		1,254
Total technical income			21,147		46,375
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		(34,068)		(8,524)	
Reinsurers' share		-		-	
Net claims paid		(34,068)		(8,524)	
Change in the provision for claims:					
Gross amount		2,402		(45,613)	
Reinsurers' share		27,884		3,803	
Change in the net provision for claims		30,286		(41,810)	
Claims incurred, net of reinsurance			(3,782)		(50,334)
Net operating expenses	3,4,5		(17,345)		(18,966)
Balance on the technical account for general business			20		(22,925)

The accounting policies and notes on pages 16 to 38 form part of these financial statements

Statement of profit or loss
Non-technical account
Year ended 31 December 2021

	Notes	2021 £000	2020 £000
Balance on the general business technical account		20	(22,925)
Investment income	6	462	509
Investment expenses and charges	6	(62)	(38)
Realised (losses) / gains on investments	6	(447)	502
Unrealised (losses) / gains on investments	6	(306)	281
Allocated investment return transferred to technical account – general business		353	(1,254)
Non-technical account (charge) / income		(204)	1,788
Loss for the financial year		(184)	(21,137)

Statement of other comprehensive income
for the year ended 31 December 2021

	2021 £000	2020 £000
Loss for the financial year	(184)	(21,137)
Total comprehensive income for the financial year	(184)	(21,137)

Statement of changes in members balances
for the year ended 31 December 2021

	2021 £000	2020 £000
Balance due from member at 1 January	(32,758)	(11,609)
Loss collected from Member – 2018 year of account	16,352	-
Total comprehensive income for the financial year	(184)	(21,137)
Member’s agent fees	(25)	(12)
Balance due from member at 31 December	(16,615)	(32,758)

There are no discontinued operations

The accounting policies and notes on pages 16 to 38 form part of these financial statements

Balance sheet - Assets
at 31 December 2021

	Notes	£000	2021 £000	£000	2020 £000
Investments					
Shares and other variable yield securities	7	5,347		3,732	
Debt securities and other fixed income securities	7	20,904		29,566	
Participation in investment pools	7	20,923		-	
			47,174		33,298
Reinsurers' share of technical provisions					
Provision for unearned premiums	2	1,244		1,593	
Claims outstanding	2	32,324		3,875	
			33,568		5,468
Debtors					
Debtors arising out of direct insurance operations	8	16,786		18,027	
Debtors arising out of reinsurance operations	8	-		-	
Other debtors	9	33		90	
			16,819		18,117
Other assets					
Cash at bank and in hand		10,491		8,293	
Overseas deposits		3,098		1,937	
			13,589		10,230
Prepayments and accrued income					
Deferred acquisition costs		4,213		5,992	
Other prepayments and accrued income		919		849	
			5,132		6,841
Total assets			116,282		73,954

The accounting policies and notes on pages 16 to 38 form part of these financial statements

Balance sheet – Liabilities
at 31 December 2021

	Notes	£000	2021 £000	£000	2020 £000
Capital and reserves					
Member's balances			(16,615)		(32,758)
Technical provisions					
Provision for unearned premiums	2	22,552		22,577	
Claims outstanding	2	79,921		81,617	
			102,473		104,194
Creditors					
Creditors arising out of direct insurance operations	10	-		-	
Creditors arising out of reinsurance operations	10	29,052		1,379	
			29,052		1,379
Accruals and deferred income	10		1,372		1,139
Total liabilities			116,282		73,954

The accounting policies and notes on pages 16 to 38 form part of these financial statements

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

Robert Forster
Chief Executive Officer

M Bell
Finance Director
3 March 2022

Statement of cash flows
Year ended 31 December 2021

	2021 £000	2020 £000
Cash flow from operating activities		
Loss for the financial year	(184)	(21,137)
Adjustments for:		
(Decrease) / Increase in gross technical provisions	(1,722)	47,638
Increase in reinsurers' share of technical provisions	(28,100)	(4,204)
Decrease / (Increase) in debtors, prepayments & accrued income	3,008	(7,297)
Increase in creditors	27,906	1,156
Investment return	353	(1,254)
Net cash generated from operating activities	1,261	14,902
Cash flows from investing activities:		
Purchase of equity & debt instruments	(260,001)	(143,899)
Sale of equity & debt instruments	245,717	131,697
Investment income received	(353)	1,254
Changes to market value and currency	(690)	1,186
Net cash used in investing activities	(15,327)	(9,762)
Cash flows from financing activities:		
Distribution loss collected	16,352	-
Member's agent's fees	(25)	(12)
Net cash used in financing activities	16,327	(12)
Net increase in cash & cash equivalents in year	2,262	5,128
Cash & cash equivalents at beginning of year	8,293	3,516
Foreign exchange movements in cash and cash equivalents	(64)	(351)
Cash & cash equivalents at end of the year	10,491	8,293
Cash & cash equivalents comprise:		
Cash at bank and in hand	10,491	8,293
	10,491	8,293

The accounting policies and notes on pages 16 to 38 form part of these financial statements

Statement of accounting policies

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

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

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

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

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

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

The directors have a reasonable expectation that the syndicate has adequate resources including the funds at Lloyd's of the member supporting the syndicate (as detailed in note 8) to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

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

Change in provision for gross unearned premiums
Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Reinsurance premium ceded
Outwards reinsurance premiums comprise premiums on contracts incepting during the financial year, together with adjustments made in the year to premiums written in prior years. Outwards reinsurance premiums are disclosed gross of commissions and profit participations recoverable from reinsurers. Premium charge on Retroactive reinsurance transactions are disclosed in outward reinsurance premium net of the value of reserves ceded.

Statement of accounting policies (continued)

Change in provision for reinsurance unearned premiums
Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns, time apportionment or look through to underlying gross exposures as appropriate.

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

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

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

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

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

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

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

Statement of accounting policies (continued)

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

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

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

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

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

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

Financial Assets and Liabilities

Classification

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

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

Recognition

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

Statement of accounting policies (continued)

Initial measurement

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

Subsequent measurement

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

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

De-recognition of financial assets and liabilities

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

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

Fair value measurement

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

Impairment of financial instruments measured at amortised cost or cost

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

Statement of accounting policies (continued)

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

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

Offsetting

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

Investment return

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

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

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

Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

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

Statement of accounting policies (continued)

Profit commission

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

Pension costs

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

Key accounting judgements and estimation uncertainties

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

Technical provisions

The accounting policy for technical provisions is described on page 17 and the related risks are described on page 22. The net technical provisions after the reinsurers' share is £68,905k (2020: £98,726k) comprising provisions for unearned premium and outstanding claims (note 2). The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either the claim has been notified to the syndicate or where there has not yet been a notification or although notified there has been insufficient information to date to be certain regarding its ultimate costs. The net amount is £47,597k (2020: £77,742k). As described in the risk management section there is a thorough review process of claims notifications and reserving estimates. There is a fairly limited spread of risks written as the syndicate is highly specialised. Within the medical professional liability sector, the syndicate achieves spread by writing within the various sub sections (physicians, facilities, international and long-term care). Where investment has also been made in risk management across many of the risks; these combined should reduce the risk of a common trend of adverse development occurring.

The uncertainty within technical provisions is mitigated to some extent by the element of reinsurers' share, in particular the LPT purchased on the 2018 and 2019 YOA. On the 2020 and 2021 YOA, there are some remaining uncertainties associated with the estimation of these recoveries, including potential bad debt.

Premium income

The accounting policy for written and earned premium income is described on page 16 and the related risks are described on page 22. The estimation of written premium includes amounts for additional or return premiums and business that may have been underwritten but not yet notified. The earning of this premium has been calculated on a basis of time apportionment. The directors consider that this represents a reasonable approximation of the overall earning risk profile of the policies written. As described in the risk management section there is detailed evaluation of premium written estimates at the time of writing risks and these are monitored and checked as remaining valid until they are received.

Investment valuations

All investments are shown at their fair value as described in the accounting policy on page 18 and details of the risks relating to investments are disclosed on page 24. All investments are highly rated securities and regularly traded on major stock exchanges so that the risks in their valuations are reduced.

Risk management

Coverys approach to syndicate risk management

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

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

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

As described in note 11, the managing agent is required to prepare a Solvency Capital Requirement (SCR) return to Lloyd's annually, using the results of the internal model, to agree capital requirements for the syndicate with Lloyd's.

Syndicate risk exposures

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

Insurance risk

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

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

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

Risk management (continued)

Catastrophic events

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

Business volumes and rating levels

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

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

Reserving risk

There are a number of drivers of reserving risk.

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

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

Risk management (continued)

Reserving risk (continued)

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

The table below shows the impact of a movement of 1% in the Technical Provisions showing the impact on the Statement of profit or loss - technical account.

	2021 £000	2020 £000
Gross outstanding claims provision	79,921	81,617
Net outstanding claims provision	47,597	77,742
Net unearned premium provision	21,308	20,983
Impact of a 1% movement in net outstanding claims on result	(476)	(777)

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

Investment risk

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

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

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

Liquidity risk

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

Risk management (continued)

Liquidity risk (continued)

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

Expected cash flows	Less than 1 year £000	1 to 3 years £000	3 to 5 years £000	More than 5 years £000	Total £000
As at 31 December 2021					
Gross claims outstanding	13,271	27,931	19,442	19,277	79,921
Creditors	29,052	-	-	-	29,052
Total	42,323	27,931	19,442	19,277	108,973
As at 31 December 2020					
Gross claims outstanding	13,997	29,724	20,481	17,416	81,618
Creditors	1,379	-	-	-	1,379
Total	15,376	29,724	20,481	17,416	82,997

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

Expected cash flows	Less than 1 year £000	1 to 3 years £000	3 to 5 years £000	More than 5 years £000	Total £000
2021 net claims liabilities	7,904	16,634	11,578	11,481	47,597
2020 net claims liabilities	13,723	29,143	20,081	17,077	80,024

Currency risk

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

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

If the exchange rates of all non-GBP currencies moved by a foreseeable 10% either to the benefit or detriment of the syndicate at the same time, the impact on both the result for the year and the member's balances would be £1,088k (2020: £2,873k) with US Dollar net assets being the largest element. The syndicate monitors these currency balances and aims to ensure excessive balances beyond accumulated profits do not accrue beyond those necessary to meet overseas trust fund requirements. The syndicate has not undertaken any transactions to hedge these balances.

Risk management (continued)

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

	£ £000	US$ £000	Can$ £000	Other £000	Total £000
As at 31 December 2021					
Financial investments	814	42,279	4,081	-	47,174
Overseas deposits	187	1,701	597	613	3,098
Reinsurers' share of technical provisions	1,709	28,352	2,890	617	33,568
Insurance & reinsurance debtors	1,727	8,836	4,782	1,441	16,786
Cash at bank	4,089	2,987	1,275	2,140	10,491
Other assets including deferred acquisition costs	1,488	3,085	205	387	5,165
Total assets	10,014	87,240	13,830	5,198	116,282
Technical provisions	14,423	76,702	6,207	5,141	102,473
Insurance & reinsurance creditors	-	29,052	-	-	29,052
Other creditors	1,330	42	-	-	1,372
Total liabilities	15,753	105,796	6,207	5,141	132,897
Surplus/(deficiency) of assets	(5,739)	(18,556)	7,623	57	(16,615)
As at 31 December 2020					
Financial investments	838	29,804	2,656	-	33,298
Overseas deposits	113	1,206	388	230	1,937
Reinsurers' share of technical provisions	267	5,100	60	41	5,468
Insurance & reinsurance debtors	4,026	9,190	3,301	1,510	18,027
Cash at bank	164	6,724	238	1,167	8,293
Other assets including deferred acquisition costs	2,660	3,758	97	416	6,931
Total assets	8,068	55,782	6,740	3,364	73,954
Technical provisions	10,774	86,581	3,768	3,071	104,194
Insurance & reinsurance creditors	190	1,184	5	-	1,379
Other creditors	1,139	-	-	-	1,139
Total liabilities	12,103	87,765	3,773	3,071	106,712
Surplus/(deficiency) of assets	(4,035)	(31,985)	2,967	293	(32,760)

Risk management (continued)

Interest rate risk

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

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

	2021	**2020**
	£000	**£000**
Impact of a 50-basis point increase in interest rates on result	(105)	(148)
Impact of a 50-basis points decrease in interest rates on result	105	148
Impact of a 50-basis points increase in interest rates on net assets	(105)	(148)
Impact of a 50-basis point decrease in interest rates on net assets	105	148

Credit risk

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

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

Reinsurance credit risk

When considering the panel of reinsurers for its reinsurance programme, the syndicate seeks to place protection across a broad spread of counterparties, although due to the small size of the syndicate, and its limited use of reinsurance, there is a concentration to Coverys group (Group Reinsurance) (note 14).

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

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

Risk management (continued)

Brokers and Intermediaries

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

Financial instruments risk

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

The following tables analyse the Syndicate's major exposures to counterparty credit risk excluding loans and receivables, based on Standard & Poor's or equivalent rating at 31 December 2021.

	AAA £000	AA £000	A £000	≤BBB/NR £000	Total £000
As at 31 December 2021					
Variable yield securities and unit trusts	-	4,235	1,112	-	5,347
Debt securities	-	12,444	6,807	1,653	20,904
Participation in investment pools	-	20,923	-	-	20,923
Overseas deposits as investments	1,558	700	375	465	3,098
Reinsurers' share of claims outstanding	-	2,629	29,695	-	32,324
Cash at bank and in hand	-	1,276	9,215	-	10,491
Total credit risk	1,558	42,207	47,204	2,118	93,087
As at 31 December 2020					
Variable yield securities and unit trusts	-	2,742	990	-	3,732
Debt Securities	-	18,704	8,279	2,583	29,566
Participation in investment pools	-	-	-	-	-
Overseas deposits as investments	734	653	277	273	1,937
Reinsurers' share of claims outstanding	-	2,193	1,682	-	3,875
Cash at bank and in hand	-	238	8,054	-	8,293
Total credit risk	734	24,530	19,282	2,856	47,403

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

Operational risk

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

Risk management (continued)

In relation to the former, the managing agent maintains a Business Continuity Plan (BCP) which sets out the anticipated risks, assessments of the robustness and sustainability of IT infrastructure and applications, and the alternate arrangements or response procedures in place to mitigate those business continuity risks. The BCP is reviewed and updated regularly. In relation to the latter, the managing agent has established arrangements designed to achieve an appropriate commonality of interest between the syndicate and the third parties concerned, and these arrangements are reviewed periodically. With regards to the risk of loss of key staff, this risk is considered more likely when compared to the previous year given the decision to go in to run off and migrate the business in a future UK branch or company. Therefore, in addition to the usual mitigate strategies including personal development and succession planning, the managing agency has also implemented a retention bonus scheme for all staff and continues to seek to maintain a sufficient personnel resource with appropriate experience and expertise to reduce the risk of business disruption as a result of unexpected departures.

Operational risk is monitored via regular risk and control assessments and tested for adequate risk mitigation in place through scenario assessments. The insight from these processes is used to quantify operational risk in the internal model.

Regulatory risk

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

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

Solvency risk

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

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

Notes to the annual accounts at 31 December 2021

1. Analysis of underwriting results

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

	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
2021						
Direct insurance:						
Third party liability	32,735	34,587	(21,238)	(12,409)	(1,700)	(760)
Reinsurance insurance:						
Casualty	19,012	17,374	(10,428)	(4,936)	(876)	1,134
	51,747	51,961	(31,666)	(17,345)	(2,576)	374
2020						
Direct insurance:						
Third party liability	34,292	29,676	(24,593)	(12,560)	(768)	(8,246)
Reinsurance insurance:						
Casualty	20,390	18,524	(29,543)	(6,405)	1,491	(15,933)
	54,682	48,200	(54,137)	(18,966)	723	(24,179)

Total commissions payable for direct insurance written in the year amounted to £6,996k (2020: £8,614k).

All premiums were concluded and earned in the United Kingdom.

2. Technical provisions

	2021 £000	2020 £000
Gross technical provisions		
Claims outstanding	79,921	81,617
Provision for unearned premiums	22,552	22,577
	102,473	104,194
Reinsurers' share of technical provisions		
Claims outstanding	32,324	3,875
Provision for unearned premiums	1,244	1,593
	33,568	5,468
Net technical provisions		
Claims outstanding	47,597	77,742
Provision for unearned premiums	21,308	20,984
	68,905	98,726

Notes to the annual accounts (continued)

2.Technical provisions (continued)

Reconciliation of movements in year

2021	Opening Balance £000	Mvt in tech account £000	Exchange mvt £000	Closing Balance £000
Gross provision for claims	(81,617)	2,402	(706)	(79,921)
Reinsurers' share of provision	3,875	27,884	565	32,324
Unearned premium	(22,577)	214	(189)	(22,552)
Reinsurers' share of unearned premium	1,593	(366)	17	1,244
Deferred acquisition costs	5,992	(1,799)	20	4,213
2020				
Gross provision for claims	(39,865)	(45,613)	3,861	(81,617)
Reinsurers' share of provision	321	3,803	(249)	3,875
Unearned premium	(16,692)	(6,482)	597	(22,577)
Reinsurers' share of unearned premium	943	722	(72)	1,593
Deferred acquisition costs	4,503	1,624	(135)	5,992

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

Gross Claims development as at 31 December 2021

Pure underwriting year	2018	2019	2020	2021
Estimate of gross claims incurred	£000	£000	£000	£000
After one year	14,284	11,124	17,127	14,250
After two years	30,561	30,824	36,325	
After three years	42,160	24,348		
After four years	39,097			
Less gross claims paid	23,250	9,906	918	26
Gross reserves	15,847	14,442	35,407	14,224

Net Claims development as at 31 December 2021

Pure underwriting year	2018	2019	2020	2021
Estimate of gross claims incurred	£000	£000	£000	£000
After one year	13,756	10,859	16,297	13,645
After two years	30,511	29,997	34,879	
After three years	39,889	9,909		
After four years	23,263			
Less net claims paid	23,250	9,906	918	26
Net reserves	13	3	33,961	13,619

Balances have been translated at exchange rates prevailing at 31 December 2021.

Notes to the annual accounts (continued)

2.Technical provisions (continued)

The significant movements in gross claims incurred in respect of claims provisions created at the end of the previous period are analysed as follows:

	2021 £000	2020 £000
Direct - Third party liability	51,149	36,728
Reinsurance - Casualty	28,772	44,890
	79,921	81,618

Loss Portfolio Transfer (LPT)

An LPT has been put into place in December 2021 reinsuring the loss reserves on the 2018 and 2019 years of account to Medical Professional Mutual Insurance Company, a fellow subsidiary of the Ultimate Holding Company. This will provide stability to the Syndicate on any future loss movements on the prior years. The reinsurance recovery included within the Net Technical Provisions as part of the LPT was £28.0m.

3. Net operating expenses

	2021 £000	2020 £000
Brokerage and commissions	8,746	11,353
Other acquisition costs including certain syndicate expenses deemed to relate to procuring business	-	1,605
Acquisition costs	8,746	12,958
Change in deferred acquisition costs	1,799	(1,624)
Administration expenses	5,727	6,984
Member's standard personal expenses	1,073	647
	17,345	18,965

	2021 £000	2020 £000
Administrative expenses include:		
Auditors' remuneration		
Audit of the syndicate annual accounts	87	79
Audit-related assurance services	34	42
Other assurance services provided	81	70
	202	191

Audit-related assurance services relate to regulatory reporting to Lloyd's
Other assurance services provided relate to the statement of actuarial opinion

Notes to the annual accounts (continued)

4. Employees

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

	2021 £000	2020 £000
Wages and salaries	3,305	5,233
Social security costs	406	711
Other pension costs	233	346
	3,944	6,290

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

	2021	2020
Administration and finance	28	22
Underwriting	6	5
Claims	6	6
	40	33

5. Directors' and Active Underwriters' emoluments

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

	2021 £000	2020 £000
Emoluments	531	451

Active Underwriters' emoluments

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

Emoluments	403	382

Notes to the annual accounts (continued)

6. Investment Return

Income from investments	462	509
Gains on the realisation of investments	31	540
Losses on the realisation of investments	(478)	(38)
Investment income	15	1,011
Investment expenses and charges	(62)	(38)
Unrealised gains on investments	97	312
Unrealised losses on investments	(403)	(31)
Allocated investment return transferred to the technical account	(353)	1,254

This can also be presented as follows:

Interest and similar income		
Interest from financial instruments designated at fair value	462	509
Gains on investments	128	852
	590	1,361

7. Other financial investments	Market value		Cost	
	2021 £000	2020 £000	2021 £000	2020 £000
Listed securities				
Shares and other variable yield securities	5,347	3,731	4,532	3,731
Debt securities and other fixed income securities	20,904	29,566	21,050	29,285
Participation in investment pools	20,923	-	20,963	-
	47,174	33,297	46,545	33,016

Notes to the annual accounts (continued)

7. Other financial investments (continued)

Fair value hierarchy

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable (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.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
As at 31 December 2021				
Total Investments	46,359	-	815	47,174
Overseas Deposits	404	2,695	-	3,099
Total	46,763	2,695	815	50,273

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
As at 31 December 2020				
Total Investments	32,459	-	838	33,297
Overseas Deposits	662	1,276	-	1,938
Total	33,121	1,276	838	35,235

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

London Interbank Offered Rate (LIBOR)

LIBOR is a widely used interest rate benchmark for derivatives and floating rate corporates and securitized bonds, among other financial instruments. It is based on the daily submissions of estimated borrowing rates by a panel of major global banks. On the 27 July 2017, the Financial Conduct Authority (FCA) announced that banks will no longer be required to submit these rates by 2021, which will result in the phase out of LIBOR as a benchmark interest rate. On the 30 November 2020, US and UK regulators announced that they would extend the publication of USD LIBOR for an additional 18 months through to 30 June 2023, to provide sufficient time to wind-down legacy contracts. Syndicate 1975 does not have any LIBOR based securities therefore is not impacted by the changes.

Notes to the annual accounts (continued)

8. Debtors – due within one year

	2021 £000	2020 £000
Direct arising out of direct insurance operations		
Policyholders	-	-
Intermediaries	16,786	18,027
Direct arising out of reinsurance operations	-	-
	16,786	18,027

9. Other debtors

	2021 £000	2020 £000
VAT receivable	32	75
US Federal Income Tax	-	15
Sundry	1	-
	33	90

10. Creditors – due within one year

	2021 £000	2020 £000
Creditors arising out of direct insurance operations	-	-
Creditors arising out of reinsurance operations	29,052	1,379
Accruals and deferred income	1,372	1,140
	30,424	2,519

11. Regulatory capital requirements

Funds at Lloyd's

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

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

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

Notes to the annual accounts (continued)

11. Regulatory capital requirements (continued)

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

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

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

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2021 was 35% of the member's SCR 'to ultimate'.

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

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

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

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

Notes to the annual accounts (continued)

14. Related parties

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

(ii) During the year, the syndicate paid £4,699k (2020: £5,700k) to Coverys MA Services Limited (CMAS) in relation to management fees and a further £375k (2020: £375k) in managing agency fees to Coverys at Lloyd's.

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

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

(v) The Syndicate is related to ProMutual Insurance Agency Inc (PMIA) by virtue of common control. PMIA is a service company based in Boston. During the year PMIA placed inwards premium income with the Syndicate on normal commercial business terms, the written premium income was nil (2020: £267k).

(vi) The Syndicate is related to Medical Professional Mutual Insurance Company (MPMIC) by virtue of common control. During the year, the syndicate entered into a Loss Portfolio Transfer with MPMIC in relation to the 2018 and 2019 YOA earned loss reserves. The reinsurance premium payable on the transaction was £28.0m

15. Controlling Party of the Managing Agent

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

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

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