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Talbot Underwriting Ltd Syndicate 1183

Annual Report and Accounts

31 December 2020

Annual Report and Accounts 2020

Contents

Chief Executive Officer's report

2020 has been a year of challenge and change as we all had to adapt to living and working in a COVID-19 environment. Throughout the year, the wellbeing of our staff has been our key priority and this has ensured that we have been able to continue to meet the needs of our customers. All staff have been working remotely since 17 March 2020 and this remains the case as at the time of this report.

Result for the year

Premiums for the year increased by 7.4% to $1,059.1m (2019: $985.7m). Claims were significantly impacted by COVID-19 losses arising from event cancellation policies in our Contingency class. Together with a lower investment return of 2.4% (2019: 3.8%), this meant the result for the year was a loss of $42.3m (2019: profit of $89.4m). The combined ratio for the year deteriorated to 110.0% (2019: 94.6%). The underlying performance of the business excluding COVID-19 losses remains strong with a combined ratio of 85.7% (2019: 94.6%). We continue to see the benefit of underwriting remediation and restructuring undertaken prior to 2020.

Future developments

The syndicate capacity for the 2021 year of account has increased to £760m (2019: £650m). We expect to see a continuation of rate improvements in 2021 which will present opportunities for growth where pricing is commensurate with the risk. We continue to work with AIG to look at developing future opportunities for the syndicate.

Finally, I would like to thank all my colleagues at Talbot for their hard work, commitment and resilience during this exceptional year. The team has more than risen to the challenge.

Chris Rash

Chief Executive Officer, Talbot Underwriting Ltd

4 March 2021

Report of the directors of the Managing Agent

The directors of the Managing Agent, Talbot Underwriting Ltd ("Talbot" or "the Company"), present their annual report and audited accounts for the year ended 31 December 2020. The annual report is prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

The comments below refer to both information prepared on an annual accounting basis and information derived from a Lloyd's year of account basis. The latter is included where it is used by management to manage the business.

Principal activity

The principal activity of the syndicate continues to be the underwriting of insurance and reinsurance business in the Lloyd's market.

Overview

The syndicate result for the year was a loss of $42.3m (2019: profit of $89.4m). Gross premiums written during the year were $1,059.1m (2019: $985.7m).

Results for the financial year

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Gross premiums written	1,059.1	985.7	950.5	921.1	970.7
Net premiums written	830.8	791.7	749.9	721.6	795.0
Net earned premiums	809.7	769.8	746.6	742.1	774.4
Net claims incurred	(602.7)	(432.1)	(518.8)	(505.7)	(430.9)
Net acquisition costs	(186.2)	(181.9)	(178.4)	(182.7)	(188.9)
Underwriting result before administrative expenses	20.8	155.8	49.4	53.7	154.6
Administrative expenses	(101.9)	(114.5)	(134.6)	(136.9)	(138.3)
Investment return	34.5	51.5	17.7	18.4	18.2
Other income and charges	3.1	(3.0)	-	-	-
Foreign exchange gains /(losses)	1.2	(0.4)	3.8	(3.3)	14.6
Profit/(loss) for the financial year	(42.3)	89.4	(63.7)	(68.1)	49.1

Key performance indicators

	2020	2019	2018	2017	2016
Claims ratio (%)	74.4	56.1	69.5	68.1	55.6
Expense ratio (%)	35.6	38.5	41.9	43.1	42.3
Combined ratio (%)	110.0	94.6	111.4	111.2	97.9

The claims ratio is the ratio of claims incurred net of reinsurance to earned premiums net of reinsurance. The expense ratio is the ratio of acquisition costs plus administrative expenses, to earned premiums net of reinsurance.

Report of the directors of the Managing Agent (continued)

Traditionally, the performance of a syndicate has been assessed by measuring, as a percentage of syndicate capacity, the 36 month result on a funded accounting basis for a “closed” underwriting year of account. The return on capacity for the 2018 closed year of account at 31 December 2020 is shown below together with forecasts for the two open years of account.

Year of account	2020 open	2019 open	2018 closed	2017 closed	2016 closed
Capacity (£m)	650.0	650.0	650.0	600.0	600.0
Open year forecast/Closed year result (£m)	52.8	(79.5)	2.7	(43.9)	(15.6)
Return on capacity %	8.1	(12.2)	0.4	(7.3)	(2.6)

Syndicate capacity is a measure used by Lloyd’s and refers to a syndicate’s capacity to write premiums net of acquisition costs. Syndicate capacity is agreed by Lloyd’s in sterling based on prescribed rates of exchange. The syndicate’s capacity is provided wholly by Talbot 2002 Underwriting Capital Ltd for all years of account.

Review of the business

Underwriting

Gross premiums written by class of business for the calendar year were as follows:-

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Marine	229.9	226.6	218.5	226.8	246.0
Political Risk	102.3	102.5	99.4	82.3	78.6
Political Violence and War	135.9	124.8	106.4	113.2	113.0
Property	321.0	289.0	295.6	256.2	276.9
Specialty	177.5	149.0	152.7	148.4	156.4
Treaty	92.5	93.8	77.9	94.2	99.8
Total gross premiums written	1,059.1	985.7	950.5	921.1	970.7

Premiums were primarily written in the London market. However, group coverholders underwriting on behalf of the syndicate in overseas markets contributed 16.3% (2019: 18.8%) of premiums written. Coverholder operations are located in Singapore, New York and Miami. During 2019, coverholder operations in Sydney, Dubai, Santiago and Shanghai ceased to underwrite on behalf of the syndicate.

Gross premiums written increased by $73.4m (7.4%) to $1,059.1m in the calendar year. Translated at 2019 exchange rates, gross premiums written would have been $1,054.2m, an increase of $68.5m (7.0%).

Across the portfolio the risk adjusted rate change for the year was 18% (2019: 9%). The syndicate continued to exercise underwriting discipline and declined policies where performance has been poor or the risk was not commensurate with pricing.

The economic fallout from COVID-19 is estimated to have reduced premium by $48.0m with just over half of this falling on the Contingency class due to the absence of event cancellation business. Political Risk has also been affected by the global economic downturn and reduction in investment. At the same time, the syndicate has taken a strategic decision to limit Financial Lines liability business to protect against recession-driven claims.

The syndicate purchases outwards reinsurance principally to limit the impact of catastrophes or multiple large losses. Reinsurance is purchased on both an excess of loss and proportional basis. Reinsurance premiums for the calendar year were $228.3m (2019: $194.0m), an increase of $34.3m (17.7%).

Net claims ratio

The net claims ratio for the year was 74.4% compared to 56.1% for the previous year. Net claims incurred as a percentage of net earned premiums were as follows:-

	2020	2019
Current year notified claims - large losses over $5m net (%)	34.0	11.9
Current year claims - other losses (%)	45.7	49.6
Release from prior years' net claims provision (%)	(5.3)	(5.4)
	74.4%	56.1%

The deterioration of the net claims ratio of 18.3% was driven by COVID-19 losses of $194.3m arising primarily from event cancellation claims in the Contingency class. The syndicate has reviewed its exposure to event cancellation by a ground up review of policies to assess coverage and determine best estimate probable maximum losses. Recognition of loss estimates at the reporting date are based on actual cancellations and notifications.

The syndicate is exposed to other claims arising from the COVID-19 pandemic in relation to the Contingency class of business. There is uncertainty about the extent to which such claims will be asserted, the extent to which policies will respond to them and the net quantum of covered claims after reinsurance. However the syndicate does not consider such uncertainties to be unusual for a carrier at this stage of development.

Other notable large losses included Hurricanes Laura ($28.9m) and Sally ($18.2m).

The board has applied reserving methodologies consistent with previous years.

Net operating expenses

Net operating expenses for the year are set out below:-

	2020	2019	Movement
	$m	$m	$m
Acquisition costs	193.1	189.4	3.7
Acquisition costs – change in deferred acquisition costs	2.3	(2.9)	5.2
Acquisition costs – underwriting expenses	12.8	17.3	(4.5)
Reinsurance commissions	(22.0)	(21.9)	(0.1)
Net acquisition costs	186.2	181.9	4.3
Administrative expenses			
– Management fees from service companies	75.0	85.8	(10.8)
– Direct syndicate expenses	11.3	14.0	(2.7)
– Managing agency fee	8.3	8.3	-
– Lloyd's subscription and Central Fund charges	7.3	6.4	0.9
Administrative expenses	101.9	114.5	(12.6)
Net operating expenses	288.1	296.4	(8.3)
As % of net earned premiums			
Net acquisition costs (%)	23.0	23.6	(0.6)
Administrative expenses (%)	12.6	14.9	(2.3)
Net operating expenses (%)	35.6	38.5	(2.9)

The reduction in net operating expenses was mainly driven by the overseas office restructuring in the prior year and a reduction in group costs for research and IT services.

Report of the directors of the Managing Agent (continued)

COVID-19

COVID-19 has had a significant impact on the syndicate both in terms of operational approach and financial performance.

The impact of COVID-19 on syndicate premiums and claims is described in the underwriting and claims sections above. While the syndicate's financial performance has been materially impacted by COVID-19, it has not affected the syndicate's ability to underwrite on the 2021 year of account at an increased level of capacity.

The Talbot group implemented its business continuity plans and underwriting continues under Lloyd's emergency protocols including the use of electronic placement platforms. The syndicate has been fully operational via remote working since March 2020 and business continues.

Foreign exchange

During the year, the US dollar weakened against sterling and the Canadian dollar, with the closing exchange rates moving from £0.75/$1 (2019) to £0.73/$1 (2020) and C$1.30/$1 (2019) to C$1.27/$1 (2020) respectively. The profit on foreign exchange, primarily reflecting the weakening of the US dollar against sterling, was $1.2m (2019: gain of $0.4m).

Investment return

The return on syndicate funds by currency is shown below:-

	Sterling	US dollars	Canadian dollars	Combined US dollars
2020				
Average syndicate funds available for investment (millions)	242.0	1,084.4	72.5	1,448.8
Investment return for the year (millions)	3.7	28.6	1.6	34.5
Calendar year investment return (%)	1.4	2.7	2.2	2.4
2019				
Average syndicate funds available for investment (millions)	205.9	1,068.4	52.7	1,370.9
Investment return for the year (millions)	4.0	45.5	1.2	51.5
Calendar year investment return (%)	1.9	4.3	2.3	3.8

Syndicate funds are actively managed by AIG Asset Management (Europe) Limited and the returns compared to benchmarks agreed as part of the investment guidelines. Average funds available for investment increased by 6.7% in the current year and the investment return decreased by 1.4% in the current year to 2.4%, due to a calendar year reduction in unrealised gains recognised in the period.

Financial position

The main components of the balance sheet are technical provisions and financial investments. Each is discussed below.

Financial investments

Financial investments consist primarily of debt securities issued by governments, government agencies, or high grade corporate entities. Investment guidelines do not allow the holding of equities. All investments are traded within liquid markets except for private debt funds. The fair value of investments carried in the balance sheet is determined by market prices or by industry standard valuation models except for private debt funds. At 31 December 2020, the fair value of investments was $1,414.6m (2019: $1,312.7m) and the portfolio composition is shown in note 10 to the accounts.

Report of the directors of the Managing Agent (continued)

Cash flow

There was a decrease of $18.4m (2019: increase of $92.9m) in cash and cash equivalents during the year. Before investment activities, cash and cash equivalents increased by $37.3m driven by a net cash inflow from operating activities of $63.1m offset by a net cash outflow to the corporate member of $29.3m.

Technical provisions

Technical provisions include a provision for outstanding claims of $ $1,721.8m (2019: $1,530.9m) and a provision for unearned premiums of $581.1m (2019: $550.3m). The reinsurers' share of technical provisions is $447.4m (2019: $417.3m) in respect of outstanding claims and $76.8m (2019: $71.2m) for unearned premiums.

The provision for outstanding claims is based on evaluations of reported claims and estimates for claims incurred but not reported ("IBNR"). As claims may not be settled for a number of years after they are incurred, the setting of provisions involves a degree of judgement as to the ultimate exposure to claims. Reserves established in previous periods are adjusted as new information becomes available and claims develop.

Brexit

All European Economic Area (EEA) insurance risks and certain EEA reinsurance risks incepting on or after 1 January 2019 have been underwritten via Lloyd's Brussels under an outsourcing agreement, and reinsured in full back to the syndicate.

Part VII transfer to Lloyd's Brussels

On 30 December 2020, the Member of the Syndicate, as comprised for each of the relevant years of account between 2002 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the Member of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of $99.4m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of $99.4m. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's profit and loss account and no net impact on the balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the profit and loss account presentation. Outstanding debtor and creditor balances in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

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

Report of the directors of the Managing Agent (continued)

Climate risks

As climate-related risks continue to evolve, we will regularly assess their impact on our business, and aim to mitigate them, where possible. We not only recognise the importance of considering these risks, but also the opportunities that exist when making key business decisions.

Future developments

We anticipate that prices will continue to firm during 2021 but the market will continue to be challenging due to the combined effects of competition and overcapacity within the market. We continue our strategy of writing for profit rather than premium income. However, where classes perform well we will seek to capitalise on these opportunities for growth.

The syndicate capacity for the 2021 year of account is £760m (2020: £650m). For further detail on syndicate capacity see the note on page 3 of the accounts.

At 31 December 2020, the closing 2018 year of account has a surplus of $84.9m which will be paid to the member as part of the Lloyd's distribution process in the second quarter of the year.

The directors are confident of the future prospects of the syndicate which is expected to continue to operate as a going concern.

Corporate Governance

The Talbot Board comprises executive directors and non-executive directors (including an independent non-executive director Chair, two non-executive shareholder representatives, a non-executive director and independent non-executive directors 'INEDs').

The non-executive directors challenge the executive directors constructively on their recommendations and running of the business, review the performance of management in meeting agreed objectives and targets, monitor the reporting of performance, satisfy themselves on the integrity of financial information and satisfy themselves that financial controls and systems of risk management are adequate.

The Talbot Board conducts its duties via five main board committees:

- Audit Committee;
- Underwriting Committee;
- Remuneration Committee;
- Risk and Compliance Committee; and
- Nominations Committee.

The Audit Committee is made up of six non-executive directors and is attended by various executive directors and members of management. The purpose of the Audit Committee is, with input from external auditors, internal audit and external actuaries, to review and to report to the Board on the control infrastructure and financial reporting of the agency and its managed syndicates. The Audit Committee is responsible for ensuring that adequate systems of internal control are in place so that the organisation is able to manage and run its affairs. In addition, the committee is responsible for recommending the approval of the annual report and accounts to the board.

The Underwriting Committee is made up of six non-executive directors and is attended by various executive directors and members of management. The purpose of the Underwriting Committee is to review the underwriting activities of the syndicate, ensuring such activities are conducted in such a way as to meet the objectives of the business in accordance with the syndicate strategy and business plan.

Report of the directors of the Managing Agent (continued)

Corporate Governance (continued)

The Remuneration Committee is made up of six non-executive directors and is attended by the Chief Executive Officer and is reported to by the Chief Risk Officer. The purpose of the Remuneration Committee is to ensure that Talbot group remuneration policies which impact the syndicate are consistent with sound risk management and do not expose the syndicate to excessive risk.

The Risk and Compliance Committee is made up of six non-executive directors and is attended by the Chief Executive Officer, Chief Finance Officer, Chief Risk officer, Head of Risk Management and Internal Audit. The purpose of the Risk and Compliance Committee is to oversee the risk management process, to review issues of risk policy and to drive the risk culture at Talbot. The Risk and Compliance Committee monitors the conduct and co-ordination of risk management activities across the Talbot and the syndicate on behalf of the Talbot Board, including the identification of key business risks and material changes to the business environment.

The Nominations Committee is made up of five non-executive directors. The purpose of the Nominations Committee is to review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board, with consideration given to the succession planning of senior management and the length of service of the Board as a whole.

Risk management

At syndicate level, all risks have been allocated to one of four management committees, within a structure established by the Talbot Chief Executive. As discussed below, all risks are monitored at one of these committees.

The Talbot Executive Committee is responsible for ensuring that a risk register and key controls have been established and are maintained by the business. In addition to the Executive Committee, there are three further management committees which are responsible for specific risks. The following risk management committees report to the Executive Committee:

- Insurance Management Committee;
- Operational Risk Committee; and
- Financial Risk Committee.

As the Managing Agent for the syndicate, Talbot is ultimately responsible for the management of risk both at company and at syndicate level and for formulating the risk appetite for approval by the Talbot Board. Talbot Executive Committee maintains a comprehensive risk register and risk management framework on behalf of the syndicate and the companies in the Talbot Group. This allows new risks to be identified and new controls to be put in place as necessary, either to reduce the likelihood of an event or to mitigate its impact once it has happened. In doing this, Talbot defines gross risk to be “the inherent risk associated with a particular activity, product, line of business, sector or firm, before assessing the effectiveness of the controls or other mitigations that might be in place to reduce that risk” and net risk to be the risk once those controls are taken in to account. Net risk is compared with risk appetite, which is an expression of the level of risk that Talbot wants, or is prepared, to take. The Talbot Executive Committee also oversees the management of the key risks with regard to reserves, strategy and relationships with stakeholders. The Reserve Committee and Planning and Performance Steering Group report on a quarterly basis to the Executive Committee and support the Executive Committee in oversight of reserving and business planning. The responsibilities of these committees are to ensure that all risks recorded on the risk register at both the company and syndicate level are managed effectively. Further details can be found in note 5 to the accounts.

Report of the directors of the Managing Agent (continued)

Wates principles statement

- **Purpose and Leadership**: The Board sets out a clear long term strategy and purposes for the Company and regularly monitors progress towards the Company's strategic goals. The Board considers the impact of this strategy on each key stakeholder group.

- **Board Composition:** As per the Corporate Governance section above, the Board consists of both executive and non-executive directors, with a majority of non-executive directors, and the duties of the Board are executed partially through Board Committees. The INEDs chair the Board Committees, other than the Remuneration Committee which is chaired by a NED, so that they are able to challenge and influence a broad range of areas across the Company. The current INEDs possess a broad range of experience including finance, underwriting and law and the most recent appointment brings a diversity of skills and experience to the Board that further enhances and deepens the overall competence of the Board. Directors update their skills, knowledge and familiarity with the Company by meeting regularly with senior management, through external training courses and specific Board-training sessions which are coordinated by the Chair and Company Secretary. There is an induction process for all new directors, which is tailored for specific individuals. The Board conducts an effectiveness review on an annual basis, with an independent review conducted in Q4 2020. The findings will be reported in Q1 2021

- **Director Responsibilities:** The Directors of the Managing Agent are subject to Directors' Duties under Companies Act 2006. In addition, the Board maintains a Terms of Reference document outlining the duties of the Board, a fundamental duty being to set the strategic aims and risk appetite of the Company. The Board delegates authority for day-to-day management of the Company to the Chief Executive Officer (CEO), who chairs the Executive Committee which meets formally on a monthly basis and informally on a weekly basis and is responsible for supporting the CEO in execution of the Board-set strategy. The Executive Committee membership includes leaders of each business area.

- **Opportunity and Risk:** As outlined in the Risk Management section above, the Risk and Compliance Committee monitors the Company risk management framework and receives a quarterly report on management risks and emerging risks. In order to promote the long term sustainability of the company, strategic opportunities are reviewed by the Board and specific objectives set by the Board.

- **Remuneration**: As per the Corporate Governance section, the Remuneration Committee ensures that remuneration policies are consistent with sound risk management and do not expose the company to excessive risk. The Remuneration Committee is responsible for ensuring that the remuneration policy of the Company complies with Solvency II and other applicable regulations.

- **Stakeholder Relationships and Engagement:** Talbot has identified a range of key stakeholders, each of whom is integral to the long term objectives of the Company. The Board ensures effective engagement with each of these stakeholders and how this engagement contributes to the delivery of the long term objectives of the Managing Agent.

Indemnity insurance

Talbot purchases professional indemnity insurance protecting the company and all past, present and future directors and employees of the company in respect of errors and omissions and negligent acts.

Directors

The directors of the Managing Agent during the period from 1 January 2020 to the date of this report were as follows:

CE Barton	(Appointed 21 October 2020)
DJ Batchelor	(Chair, non-executive, appointed Chair 7 January 2021)
TA Bolt	(Non-executive)
NMA Burch	(Non-executive)
MEA Carpenter	(Non-executive)
JL Hancock	(Non-executive, appointed 7 December 2020)
BJ Hurst-Bannister	(Non-executive, resigned as Acting Chair 7 January 2021)
DE Morris	(Acting Chief Executive, resigned 8 February 2021)
C Rash	(Chief Executive, appointed 8 February 2021)
JG Ross	
M Scales	(Non-executive)
JE Skinner	(Resigned 17 July 2020)
ND Wachman	(Resigned 16 September 2020)

Active Underwriter

Ian Peterson (Appointed 11th January 2021)

David Morris (Resigned 11th January 2021)

Company Secretary

M-C Gallagher

Statutory Information

Disclosure of information to auditors

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

The current syndicate auditors, PricewaterhouseCoopers LLP, will be reappointed.

Annual General Meeting

Subject to the consent of Lloyd's, it is not intended to hold a Syndicate Annual General Meeting in 2021.

Report of the directors of the Managing Agent (continued)

Statement of Managing Agent's responsibilities

The directors of the Managing Agent are required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 to prepare syndicate annual accounts at 31 December each year which give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that year. The directors have elected to prepare the syndicate annual accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Account Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" ("FRS 102").

The directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these accounts, the directors are 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, including FRS 102, have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the syndicate will continue to write business unless it is inappropriate to presume that the syndicate will do so.

The directors of the Managing Agent confirm that they have complied with the above requirements in preparing the syndicate annual accounts.

The directors of the Managing Agent are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that its accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on behalf of the Board

M-C Gallagher
Company Secretary
4 March 2021

Independent auditors’ report to the member of Syndicate 1183

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 1183’s syndicate annual accounts:

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the annual report and accounts (the “Annual Report”), which comprise: the Balance Sheet as at 31 December 2020; the Profit and loss account and statement of comprehensive income, the Statement of changes in member’s balance and the Statement of cash flows for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

Independent auditors' report to the member of Syndicate 1183 (continued)

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 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts.

Independent auditors' report to the member of Syndicate 1183 (continued)

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 the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income. Audit procedures performed included:

- Discussion with the Board, management, compliance function and Internal Audit Group of the Managing Agent, including confirming there are no known or suspected frauds or non-compliance with laws and regulations;
- Assessment of matters reported on the Managing Agent's whistleblowing helpline and the results of management's investigation of such matters;
- Reviewing relevant meeting minutes, including those of the Board, Risk & Compliance Committee and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including Lloyd's of London, The Prudential Regulatory Authority and The Financial Conduct Authority;
- Testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of claims outstanding and the estimation of premium income;
- Identification and testing of journal entries identified as potential indicators of fraud, particularly backdated journal entries, those with unusual account combinations or duplicate journals & reversals; and
- Designing audit procedures to incorporate unpredictability around the nature, timing & extent of testing.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's 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.

Paul Pannell (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2021

Profit and loss account

For the year ended 31 December 2020

	Note	2020 $m	2019 $m
Gross premiums written	6	1,059.1	985.7
Outwards reinsurance premiums		(228.3)	(194.0)
Net premiums written		830.8	791.7
Change in gross provision for unearned premiums		(26.5)	(8.2)
Reinsurers' share of change in the provision for unearned premium		5.4	(13.7)
Change in the net provision for unearned premiums		(21.1)	(21.9)
Earned premiums, net of reinsurance		809.7	769.8
Allocated investment return transferred from the non-technical account		34.0	51.5
Gross claims paid		(595.1)	(602.4)
Reinsurers' share of claims paid		145.5	142.2
Claims paid net of reinsurance		(449.6)	(460.2)
Change in the gross provision for claims		(182.4)	12.7
Change in the provision for claims, reinsurers' share		29.3	15.4
Change in the net provision for claims	7	(153.1)	28.1
Claims incurred, net of reinsurance		(602.7)	(432.1)
Net operating expenses	8	(288.1)	(296.4)
Balance on the technical account		(47.1)	92.8
Investment income		32.8	33.3
Realised gains / (losses) on investments		(2.2)	(2.3)
Unrealised gains / (losses) on investments		5.2	21.7
Investment expenses and charges		(1.3)	(1.2)
		34.5	51.5
Allocated investment return transferred to the technical account		(34.0)	(51.5)
Other income and charges		3.1	(3.0)
Profit / (Loss) on exchange		1.2	(0.4)
(Loss) / Profit for the financial year	15	(42.3)	89.4

There was no other comprehensive income or expense in the current or prior year.

Balance sheet

As at 31 December 2020

	Note	2020 $m	2019 $m
Assets			
Investments	10	1,414.6	1,312.7
Deposits with ceding undertakings	11	0.3	0.3
Reinsurers' share of technical provisions:			
Provisions for unearned premiums	16	76.8	71.2
Claims outstanding	16	447.4	417.3
		524.2	488.5
Debtors			
Debtors arising out of direct insurance operations	12	278.7	276.5
Debtors arising out of reinsurance operations	13	139.3	113.6
Other debtors	14	13.9	16.2
		431.9	406.3
Other assets			
Cash at bank and in hand		78.5	97.3
Deferred acquisition costs		102.2	104.0
		180.7	201.3
Total assets		2,551.7	2,409.1
Liabilities			
Capital and reserves			
Member's balance	15	18.3	89.9
Technical provisions			
Provision for unearned premiums	16	581.1	550.3
Claims outstanding	16	1,721.8	1,530.9
		2,302.9	2,081.2
Creditors			
Creditors arising out of direct insurance operations	17	8.7	3.1
Creditors arising out of reinsurance operations	18	129.4	121.0
Other creditors including taxation and social security	19	79.8	101.1
		217.9	225.2
Other Liabilities			
Accrued expenses		0.6	0.5
Reinsurers' share of deferred acquisition costs		12.0	12.3
		12.6	12.8
Total Liabilities		2,551.7	2,409.1

The notes on pages 19 to 41 are an integral part of these financial statements. The financial statements on pages 15 to 41 were approved by the board of directors on 25 February 2021 and signed on its behalf by:

CE Barton
Finance Director
4 March 2021

Statement of changes in member's balance

For the year ended 31 December 2020

	Note	2020 $m	2019 $m
Balance at 1 January	15	89.9	(65.4)
(Loss) / Profit for the financial year	15	(42.3)	89.4
Funds in syndicate	15	60.5	-
Cash calls/(distributions)	15	(89.8)	65.9
Balance at 31 December		18.3	89.9

The member participates on the syndicate by reference to underwriting year of account. Analysis of the member's balance by underwriting year of account is shown in note 15 to these accounts.

Statement of cash flows
For the year ended 31 December 2020

	Notes	2020 $m	2019 $m
(Loss) / Profit for the year	15	(42.3)	89.4
Increase/(Decrease) in gross technical provisions		208.9	(4.5)
Increase in reinsurers' share of gross technical provisions		(34.6)	(1.7)
Increase in debtors		(19.6)	(3.3)
Decrease in creditors		(8.3)	(11.3)
Movement in other assets/liabilities		2.3	(3.0)
Investment return		(34.4)	(51.5)
Foreign exchange		(5.8)	4.0
Other		(3.1)	3.0
Net cash flows from operating activities		63.1	21.1
Cash flows from investing activities			
Purchase of debt instruments		(522.0)	(377.9)
Sale of debt instruments		459.8	381.3
Investment income received		31.6	31.6
Other		(25.1)	(31.0)
Net cash flow from investing activities		(55.7)	4.0
Cash flows from financing activities			
Distribution to member	15	(115.9)	(55.1)
New Funds in Syndicate from member	15	60.5	-
Cash calls from member	15	26.1	121.0
Net cash flow from financing activities		(29.3)	65.9
Net increase /(decrease) in cash and cash equivalents		(21.9)	91.0
Foreign exchange on cash and cash equivalents		3.5	1.9
Cash and cash equivalents at beginning of year		192.1	99.2
Cash and cash equivalents at end of year		173.7	192.1
Cash at bank and in hand		78.5	97.3
Short term investments - cash equivalents		95.2	94.8
Cash and cash equivalents at end of year		173.7	192.1

Notes to the financial statements

1 Statement of compliance

The accounts of Syndicate 1183 have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Insurance Contracts standard ("FRS 103") and Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

2 Summary of significant accounting policies

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

3 Accounting policies

Basis of preparation

These accounts are prepared on a going concern basis, under the historical cost convention, as modified by certain financial assets measured at fair value through profit and loss.

The preparation of accounts in conformity with FRS 102 and 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the syndicate's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are used are shown in note 4 below.

The results of the syndicate are determined on an annual basis, whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(a) Insurance contracts – classification

A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder is classified as an insurance policy.

(b) Gross premiums written

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

(c) Outwards reinsurance premiums

Outwards reinsurance premiums written comprise premiums for contracts incepted during the financial year as well as adjustments made in the year to outwards reinsurance premiums written in prior accounting periods.

(d) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date. The provision for unearned premiums is calculated on a daily pro rata basis. Outward reinsurance premiums are earned according to the type of policy. For losses occurring during (LOD) contracts, premiums are earned on a straight line basis over the period of coverage. For risks attaching during (RAD) contracts, premiums are earned in line with the gross premiums to which the risk attaching contract relates.

(e) Claims incurred

Claims incurred comprise: (i) claims and related expenses paid in the year; (ii) changes in the provisions for outstanding claims, including provisions for claims incurred but not reported ("IBNR"); (iii) related claims expenses; and (iv) any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

3 Summary of significant accounting policies (continued)

(f) Claims provisions and related reinsurance recoveries

Provision is made at the year-end for the estimated cost of unpaid claims incurred.

In calculating the claims provisions, the syndicate uses generally accepted estimation techniques applied to underwriting year of account data, usually based upon analyses of historical experience, which assume that the development pattern of future claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to alter when compared with the cost of those previously settled. Catastrophe and Large claims that impact specific classes of business are assessed and measured on a case by case basis or projected separately.

The syndicate writes a mix of predominantly short tail business, wherein most of the claims are settled within relatively few years following the writing of the policy. A proportion of the syndicate's short tail business is, however, low frequency and high severity in nature, which makes the data more volatile.

For longer tail business, predominantly financial lines and marine & energy liabilities, the time from the occurrence of a claim to it being reported and the subsequent time before settlement of the claim, can be many years. In this time additional facts regarding individual claims and trends often will become known and legislation and case law may change, affecting the ultimate value of the claim.

Provisions are calculated initially gross of any reinsurance recoveries. The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated non-recoverable 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.

Net ultimate claims provision are split between earned and unearned components, based upon earned exposure at the balance sheet date.

The factors above bring considerable uncertainty to the process of estimating earned ultimate losses and earned claims provisions. This uncertainty is increased for reinsurance business compared with insurance business due to the increased number of parties in the chain of reporting from the original claimant to the reinsurer.

The directors consider that the provisions for gross and net claims are fairly stated on the basis of the information currently available to them. However, the ultimate liability may vary as a result of subsequent information and this may result in significant adjustments in future years to the amounts provided.

(g) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses, 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 deferred acquisition costs.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return. There are no unexpired risk provisions to be reported in the current or prior year.

(h) Acquisition costs

Acquisition costs, comprising brokerage and taxes and duties levied are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

3 Summary of significant accounting policies (continued)

(i) Foreign currency

The functional and presentational currency of the syndicate is the US dollar. Transactions in other currencies are translated into US dollars at the average rates of exchange for the period or at the contracted forward rates of exchange. Assets and liabilities denominated in other currencies are translated into US dollars at the closing rates of exchange for the period.

Foreign exchange gains and losses resulting from the translation of transactions or the translation of assets and liabilities are recognised in the profit and loss account except when deferred in other comprehensive income as qualifying cash flow hedges.

The principal rates of exchange used in preparing these financial statements were as follows:

	2020		2019	
	Average	Closing	Average	Closing
Sterling	0.78	0.73	0.78	0.75
Canadian dollar	1.34	1.27	1.33	1.30

(j) 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 carried at market value are calculated as the difference between net sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of previously recognised unrealised gains and losses in respect of investments disposed of in the current period.

Investment return is recorded initially in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. Investment return on the member's funds in syndicate is recorded in the non-technical account.

(k) Financial assets and liabilities

Financial assets

Basic financial assets including insurance debtors, other debtors, deposits with ceded undertakings and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at the market rate of interest. Such assets are subsequently carried at amortised cost less any provision for impairments.

Investments are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit and loss, except that investments whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are settled, or substantially all the risks and rewards of the ownership of the asset are transferred to another party, or control of the asset has been transferred to another party who has the practical ability to sell the asset to an unrelated party.

Cash and cash equivalents comprise cash at bank and short-term highly liquid investments readily realisable as cash without significant financial penalty.

3 Summary of significant accounting policies (continued)

Financial liabilities

Basic financial liabilities include insurance creditors and other creditors, recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Insurance debtors and creditors

Insurance debtors and creditors include amounts due to and from agents, brokers and contract holders. These are classified as insurance debtors and creditors as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

(l) 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 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 on behalf of the member 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 the member on underwriting results.

(m) Profit commissions

Profit commissions payable to the managing agency which are expected to arise on closure of a Lloyd’s year of account are recognised on an accruals basis, taking into consideration any deficit clauses.

(n) Member’s balance and distribution

The member’s balance represents the retained profit or loss relating to all underwriting years of account net of any profit distribution or cash calls received in respect of losses.

4 Key judgements and uncertainties

Premium estimates

Other critical estimates are premium estimates and the earning pattern of recognising premium over the life of the policy. Premium written is initially based on the estimated premium income (EPI) of each policy. Where premium is sourced through binders, the binder EPI is assumed to attach evenly over the binder period. The underwriters adjust their EPI as the underwriting year develops. EPI is automatically adjusted to signed premium at set points in time depending on the nature of the policy. Premiums are earned on a straight line basis over the life of each policy. At a whole account level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

The majority of premium estimation arises with binder and lineslip estimates where the premium amounts are dependent on the volume of policies that attach to the binder/lineslip over the coverage period. Underwriters estimate an initial premium volume which is then adjusted throughout the life of the binder/lineslip as and when new information becomes available.

Claims provision

The most critical estimate with the balance sheet is the estimate for insurance losses incurred but not reported (IBNR), which is included in claims outstanding and reinsurers' share of outstanding claims in the balance sheet. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported gross of reinsurers' share at 31 December 2020 is $970.6m (2019:$845.8m). The total estimate for insurance losses incurred but not reported net of reinsurers' share at 31 December 2020 is $687.2m (2019:$570.3m).

The syndicate has significant exposure to claims arising from the COVID-19 pandemic in relation to the Contingency class of business. At 31 December 2020 such net claims were estimated to be $194.3m. There is uncertainty about the extent to which such claims will be asserted, the extent to which policies will respond to them and the net quantum of covered claims after reinsurance. This increases the uncertainty of the syndicate's total reserves but does not increase that uncertainty significantly beyond the normal range of uncertainty for the liabilities of an insurance carrier at this stage of development.

5 Risk management

The principal risks to the business of the syndicate are insurance, credit, liquidity, market and operational risks as set out below.

Insurance risk with regard to underwriting is monitored by the Underwriting Committee, Insurance Management Committee and by the Risk and Compliance Committee. Insurance risk with regards to reserving risk is monitored by the Executive Committee and by the Audit Committee.

Credit, liquidity, market and Funds at Lloyd's ("FAL") risks are monitored by the Financial Risk Committee ("FRC"). Operational risks are monitored by the Operational Risk Committee.

(a) Insurance risk

Insurance risk comprises both underwriting risk and reserving risk. Insurance risk arises from the fluctuations in timing, frequency and severity of insured events, relative to expectations at the time of underwriting, as well as inappropriate pricing, selection and approval of insurance risks. A key contributor to insurance risk is catastrophe accumulations, whether natural or man-made. Various controls exist within the business to ensure that the syndicate accurately records and monitors these accumulations. In addition, the syndicate also purchases reinsurance, with an appropriate number of reinstatements, to arrive at an acceptable net risk. The syndicate also has in place detailed procedures and controls to manage and monitor the handling and assessment of claims and the setting of appropriate reserves. Please see note 16 for claims development triangles.

5 Risk management (continued)

(b) Credit risk

Credit risk is defined as the risk that counterparties are unable, or unwilling, to settle their debts as they fall due.

Investment counterparties - investment guidelines ensure that the syndicate's investments are held in high quality instruments. The portfolio is monitored for concentration with respect to issuers and credit ratings. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties. Of the total fixed interest and cash investments as at 31 December 2020, 84.9% (2019: 84.6%) are with counterparties having a credit agency rating of A- or better.

Reinsurance counterparties - reinsurance is placed with reinsurers who generally have a rating of A- or above and who have a good record of claims payment. As at 31 December 2020, 86.2% (2019: 89.8%) of this balance is with reinsurers with a credit agency rating of A- or greater.

Broker and coverholder counterparties – underwriters may only write business through an approved counterparty. New broker counterparties are approved by the FRC, and new coverholder counterparties are approved by the Coverholder Conduct Management Group ("CCMG").

Balances with investment and reinsurance counterparties are rated as follows:

	AAA	AA	A	BBB	<BBB	Not rated	Total
As at 31 December 2020	$m	$m	$m	$m	$m	$m	$m
Debt securities and other fixed income securities	653.8	149.7	227.5	115.3	0.1	0.6	1,147.0
Shares and other variable yield securities	95.2	-	-	-	-	15.3	110.5
Debt funds	-	-	-	-	-	55.0	55.0
Lloyd's overseas deposits	44.2	13.1	6.2	5.3	8.1	25.2	102.1
Deposits with ceding undertakings	-	-	-	-	-	0.3	0.3
Reinsurers' share of claims outstanding	-	151.8	225.5	-	-	70.1	447.4
Insurance and reinsurance premium receivable	-	-	-	-	-	342.0	342.0
Reinsurance recoveries on paid claims	-	23.2	50.9	0.1	-	1.8	76.0
Cash at bank and in hand	-	-	78.5	-	-	-	78.5
	793.2	337.8	588.6	120.7	8.2	510.3	2,358.8

5 Risk management (continued)

(b) Credit risk (continued)

As at 31 December 2019	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	611.0	166.0	188.9	113.4	-	-	1,079.3
Shares and other variable yield securities	94.8	-	-	-	-	-	94.8
Debt funds	-	-	-	-	-	53.5	53.5
Lloyd's overseas deposits	36.1	8.9	5.2	4.6	6.1	24.2	85.1
Deposits with ceding undertakings	-	-	-	-	-	0.3	0.3
Reinsurers' share of claims outstanding	-	115.4	253.7	-	-	48.2	417.3
Insurance and reinsurance premium receivable	-	-	-	-	-	323.0	323.0
Reinsurance recoveries on paid claims	-	14.8	51.2	-	-	1.1	67.1
Cash at bank and in hand	-	-	97.3	-	-	-	97.3
	741.9	305.1	596.3	118.0	6.1	450.3	2,217.7

The syndicate has premiums receivable and reinsurance recoverables that are past due at the reporting date as follows:

As at 31 December 2020	Up to 3 months past due $m	3 to 6 months past due $m	6 months to 1 year past due $m	Greater than 1 year past due $m	Total $m
Insurance and reinsurance premiums	23.7	18.5	8.8	0.6	51.6
Reinsurance recoveries on paid claims	27.7	8.9	0.7	-	37.3
	51.4	27.4	9.5	0.6	88.9

As at 31 December 2019	Up to 3 months past due $m	3 to 6 months past due $m	6 months to 1 year past due $m	Greater than 1 year past due $m	Total $m
Insurance and reinsurance premiums	20.1	12.7	8.9	-	41.9
Reinsurance recoveries on paid claims	15.0	16.0	-	-	31.0
	35.1	28.7	8.9	-	72.9

The syndicate believes that the amounts past due date are unimpaired and are collectable in full based on historical payment behaviour and analysis of credit risk.

Notes to the financial statements

5 Risk management (continued)

(c) Liquidity risk

Liquidity risk is defined as the risk that the syndicate is unable to pay debts or meet regulatory funding requirements as they fall due and can arise if the assets held to settle liabilities are either unable to be realised or they are only realisable at materially below market value.

Syndicate cash flow forecasts are prepared and reviewed by the FRC. Liquidity is also considered by the FRC and the TUL board, when reviewing asset allocation constraints within the investment guidelines.

At 31 December 2020 the average duration of syndicate funds to maturity was 1.7 years (2019: 1.9 years) compared to 1.9 years (2019: 1.9 years) for syndicate claims outstanding.

At 31 December 2020	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial assets						
Debt securities and other fixed income securities	-	268.4	544.0	30.4	304.2	1,147.0
Shares and other variable securities	95.2	-	-	-	15.3	110.5
Debt funds	55.0	-	-	-	-	55.0
Lloyd’s overseas deposits	25.5	-	48.0	24.8	3.8	102.1
Deposits with ceding undertakings	-	0.3	-	-	-	0.3
Reinsurers' share of technical provisions - claims outstanding	-	231.9	149.0	40.8	25.7	447.4
Insurance and reinsurance premium receivable	-	341.3	0.7	-	-	342.0
Reinsurance recoveries on paid claims	-	76.0	-	-	-	76.0
Other debtors	-	13.9	-	-	-	13.9
Cash at bank and in hand	78.5	-	-	-	-	78.5
	254.2	931.8	741.7	96.0	349.0	2,372.7
Financial liabilities						
Technical provisions - claims outstanding	-	892.5	573.5	157.0	98.8	1,721.8
Creditors arising out of direct insurance operations	-	8.7	-	-	-	8.7
Creditors arising out of reinsurance operations	-	129.2	0.2	-	-	129.4
Other creditors including taxation and social security	-	79.8	-	-	-	79.8
	-	1,110.2	573.7	157.0	98.8	1,939.7

5 Risk management (continued)

(c) Liquidity risk (continued)

At 31 December 2019	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial assets						
Debt securities and other fixed income securities	-	265.4	498.2	27.4	288.3	1,079.3
Shares and other variable securities	94.8	-	-	-	-	94.8
Debt funds	53.5	-	-	-	-	53.5
Lloyd’s overseas deposits	24.3	13.6	35.7	10.3	1.2	85.1
Deposits with ceding undertakings	-	0.3	-	-	-	0.3
Reinsurers' share of technical provisions - claims outstanding	-	210.5	142.4	39.5	24.9	417.3
Insurance and reinsurance premium receivable	-	321.9	1.1	-	-	323.0
Reinsurance recoveries on paid claims	-	67.1	-	-	-	67.1
Other debtors	-	16.2	-	-	-	16.2
Cash at bank and in hand	97.3	-	-	-	-	97.3
	269.9	895.0	677.4	77.2	314.4	2,233.9
Financial liabilities						
Technical provisions - claims outstanding	-	772.3	522.3	144.9	91.4	1,530.9
Creditors arising out of direct insurance operations	-	2.9	0.2	-	-	3.1
Creditors arising out of reinsurance operations	-	121.0	-	-	-	121.0
Other creditors including taxation and social security	-	101.1	-	-	-	101.1
Derivative financial instruments	-	-	-	-	-	-
	-	997.3	522.5	144.9	91.4	1,756.1

5 Risk management (continued)

(d) Market risk

Market risk is the risk that the value of a portfolio of assets will decline due to changes in market factors. These factors include stock market prices, interest rates, foreign exchange rates and commodity prices. As the syndicate does not hold shares or commodities, it is not directly exposed to the price risk relating to them. Further detail of investments is shown in note 10.

Foreign exchange risk

This is the risk that foreign exchange rate movements could impact the valuation of assets and liabilities in the syndicate's reporting currency. While the syndicate's results are reported in US dollars, funds are also held in other non US dollar currencies, primarily sterling. Therefore, there is a risk that fluctuations in exchange rates may have a significant effect on results and net assets. For management of the economic effect of this exposure, funds by currency are reviewed against liabilities on a quarterly basis. Where practical, assets and liabilities are matched by currency after consideration has been given to the overall Talbot group position. The aim is to hold surplus funds in the functional currency of US dollars. If the US dollar had weakened/strengthened against Sterling and Canadian dollar by a further 5% the profit (loss) on exchange for the year for Canadian dollars would have been higher/lower by $1.23m and Sterling $0.4m (2019: Canadian Dollar $0.7m and Sterling $2.2m).

Interest rate risk

This is the risk that an increase in interest rates or volatility in the fixed income markets could result in significant unrealised or realised losses in the market value of the investment portfolio. The syndicate is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the syndicate to cash flow interest rate risk. Fixed interest rate assets expose the company to fair value risk. The syndicate's strategy is to invest in high quality, liquid, fixed and floating rate interest securities and cash and actively to manage duration. The investment portfolios are actively managed to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the business. If interest rates had increased/decreased by 0.5%, investment return for the year would have been lower/higher by $12.6m (2019: $13.4m).

(e) Operational Risk

Operational risk is attributable to people, processes, systems and external events and is the risk that the actions of people, or failings in processes or systems, or external events, may give rise to losses in the company, syndicate or wider group. This is a large risk group and the risks within it are managed widely across the business. Operational risks are reported on monthly, generally at the Operational Risk Committee unless they are sufficiently material to be escalated to the Executive Committee. When risks are reported, controls are put in place to mitigate the likelihood of the risk impacting the business.

COVID-19 has caused a change in the operation of the syndicate from being office based to a completely remote working environment. This has meant that internal processes, people and systems have been put to the test. The syndicate has adapted to the change and business processes have continued to be carried out. Operational risks arising from COVID-19 continue to be managed by the Incident Management Team and regular monitoring of the performance of controls continues through the risk management reporting process.

6 Segmental information

Year ended 31 December 2020	Gross premiums written $m	Gross premiums earned $m	Gross claims incurred $m	Gross operating expenses $m	Reinsurance balance $m	Total $m
Direct business						
Accident and health	7.5	7.1	(4.1)	(3.9)	(0.1)	(1.0)
Motor (third party liability)	-	-	-	-	-	-
Motor (other)	7.3	9.1	(7.6)	(3.6)	2.7	0.6
Marine	41.1	41.6	(7.0)	(17.0)	(7.3)	10.3
Aviation	20.9	20.0	(14.2)	(7.5)	(1.8)	(3.5)
Transport	30.4	32.0	(4.0)	(11.9)	(1.1)	15.0
Energy – marine	35.3	37.8	(3.3)	(11.0)	(11.0)	12.5
Energy – non-marine	57.4	50.2	(37.6)	(6.7)	(9.6)	(3.7)
Fire and other damage to property	187.8	195.0	(109.3)	(67.1)	(26.8)	(8.2)
Third party liability	111.5	98.7	(59.1)	(26.3)	(4.1)	9.2
Pecuniary loss	75.6	81.1	(225.2)	(26.2)	55.1	(115.2)
Total direct	574.8	572.6	(471.4)	(181.2)	(4.0)	(84.0)
Reinsurance business	484.3	460.0	(306.1)	(128.9)	(22.1)	2.9
Total	1,059.1	1,032.6	(777.5)	(310.1)	(26.1)	(81.1)

Year ended 31 December 2019	Gross Premiums written $m	Gross premiums earned $m	Gross claims incurred $m	Gross operating expenses $m	Reinsurance balance $m	Total $m
Direct business						
Accident and health	5.5	5.2	(1.5)	(3.0)	(0.1)	0.6
Motor (third party liability)	-	-	-	-	-	-
Motor (other)	10.7	10.7	(5.8)	(4.7)	(0.7)	(0.5)
Marine	48.3	49.9	(42.8)	(21.7)	(1.1)	(15.7)
Aviation	15.8	28.3	(16.7)	(7.2)	(4.7)	(0.3)
Transport	31.6	30.1	1.7	(12.8)	(12.8)	6.2
Energy – marine	37.5	37.3	(16.0)	(11.0)	0.3	10.6
Energy – non-marine	41.2	38.6	(75.2)	(4.8)	17.9	(23.5)
Fire and other damage t property	190.3	193.7	(93.2)	(72.1)	(19.8)	8.6
Third party liability	90.2	80.5	(44.9)	(25.6)	(11.6)	(1.6)
Pecuniary loss	97.3	88.7	(18.7)	(32.2)	(10.9)	26.9
Total direct	568.4	563.0	(313.1)	(195.1)	(43.5)	11.3
Reinsurance business	417.3	414.5	(276.6)	(123.2)	15.3	30.0
Total	985.7	977.5	(589.7)	(318.3)	(28.2)	41.3

The reinsurance balance represents the credit (charge) to the technical account from the aggregate of all items relating to outwards reinsurance. All premiums written are for contracts concluded in the UK.

6 Segmental information (continued)

The geographical analysis of gross written premiums by destination (domicile of the insured) is as follows:

	2020 $m	2019 $m
UK	148.6	150.5
EU countries	95.3	100.3
US	400.9	341.6
Other	414.3	393.3
	1,059.1	985.7

7 Movement in prior year's provision for claims outstanding

There has been a reassessment of the net provision for claims outstanding held at the previous year end. The release in 2020 amounted to $42.8m (2019: $41.5m), attributable to the following classes of business:

	2020 $m	2019 $m
Marine	10.1	20.3
Political Risk	10.6	16.3
Political Violence and War	15.7	4.7
Property	(7.1)	(6.9)
Speciality	4.7	2.7
Treaty	8.8	4.4
	42.8	41.5

8 Net operating expenses

	2020 $m	2019 $m
Brokerage and commission	193.1	189.4
Other acquisition costs	12.8	17.3
Acquisition costs	205.9	206.7
Acquisition costs - change in deferred acquisition costs	2.3	(2.9)
Administrative expenses	101.9	114.5
Gross operating expenses	310.1	318.3
Reinsurance commissions and profit participations	(22.0)	(21.9)
	288.1	296.4

Brokerage and commissions for direct insurance business for the year amounted to $110.0m (2019: $119.2m).

8 Net operating expenses (continued)

An analysis of the amounts paid to the syndicate's auditors and associates is given below. The audit and non-audit fees are borne by Talbot Underwriting Services Ltd ("TUSL") and are incorporated in the management fee charged referred to in note 21.

	2020 $m	2019 $m
Fees payable to the syndicate's auditor's and their associates in respect of:		
Audit of the syndicate annual accounts	0.5	0.5
Other services pursuant to legislation	0.3	0.1
	0.8	0.6

9 Employees and directors

The syndicate has no direct employees. The staff and key management personnel who provide services to the syndicate are employed by various group companies. As disclosed in Note 21, these group companies charge management fees to the syndicate for providing services to the syndicate. Therefore staff cost or numbers are not separately identified.

The estimated aggregate emoluments of the active underwriter allowed for within the management fees charged by group companies to the syndicate were as follows:-

	2020 $m	2019 $m
Aggregate emoluments	0.5	0.6
Defined contribution pension scheme	-	-
	0.5	0.6

The estimated key management personnel emoluments allowed for within the management fees charged by group companies to the syndicate were as follows:

	2020 $m	2019 $m
Aggregate emoluments	2.4	3.3
Defined contribution pension scheme	-	-
	2.4	3.3

Included in the above are the estimated emoluments of the highest paid director as follows:

	2020 $m	2019 $m
Aggregate emoluments	0.8	0.8
Defined contribution pension scheme	-	-
	0.8	0.8

Retirement benefits are accruing to the following number of key management personnel as follows:

	2020	2019
Defined contribution pension scheme	5	5

10 Investments

	Cost 2020	Cost 2019	Market Value 2020	Market Value 2019
	$m	$m	$m	$m
Investments at fair value				
Debt securities and other fixed income securities	1,132.3	1,070.4	1,147.0	1,079.3
Shares and other variable yield securities	110.5	94.8	110.5	94.8
Debt funds	53.9	52.1	55.0	53.5
Lloyd's overseas deposits	102.1	85.1	102.1	85.1
Total	1,398.8	1,302.4	1,414.6	1,312.7

	Cost 2020	Cost 2019	Market Value 2020	Market Value 2019
Investments at fair value analysis				
Government debt	202.4	165.2	204.1	167.8
Quasi Government debt	135.0	131.7	135.9	132.8
Agency debt	7.6	21.6	7.7	21.8
Corporate debt	420.3	420.9	424.6	422.2
Supranational debt	73.5	37.2	73.8	37.2
Asset backed securities	17.2	35.6	16.9	35.5
Mortgage backed securities	276.3	258.2	284.0	262.0
Short term investment - cash equivalents	95.2	94.8	95.2	94.8
Debt funds	53.9	52.1	55.0	53.5
Lloyd's overseas deposits	102.1	85.1	102.1	85.1
Loans to Lloyd's Central Fund	15.3	-	15.3	-
Total	1,398.8	1,302.4	1,414.6	1,312.7

Shares and other variable yield securities include short-term highly liquid investments of $95.2m (2019: $94.8m) and loans to the Lloyd's Central Fund of $15.3m (2019: nil). Short–term highly liquid investments are readily convertible to known amounts of cash with an insignificant risk of change in value, i.e. cash equivalents. Loans to the Lloyd's Central Fund are held at par value of $15.3m as a proxy for fair value. During the year, the 2019 loan of $3.3m previously fully provided for was reinstated at par value.

Debt funds represent capital Talbot has provided to a fund company in return for either a limited partner interest or shares in the fund company. The fund company will in turn utilise this capital by purchasing a portfolio of private debt and mezzanine securities.

Lloyd's overseas deposits are lodged as a condition of conducting underwriting business in certain countries or states within countries. These funds are managed by Lloyd's Treasury Services.

Fair value estimation

The syndicate recognises investments at their fair value in the balance sheet. The syndicate's investments valuations are provided principally by AIG Asset Management (Europe) Limited, who in turn use data from a number of sources including index providers commercial valuation providers and broker-dealers. Lloyd's Treasury Services provides details of the sourcing of fair value classification together with details by security for the Lloyd's overseas deposits.

10 Investments (continued)

Fair value estimation (continued)

Under FRS 102, the syndicate must determine the appropriate level in a fair value hierarchy for each fair value measurement. The fair value hierarchy under FRS 102 has three levels which should be used to estimate fair value:

Level 1 – the unadjusted quoted price 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, and

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

The debt funds have been classified as level 3 assets. The valuation techniques adopted by the fund company establishes the fair transaction price of the company's assets based upon modelling techniques and analysis which incorporates unobservable inputs for which market data is unavailable. Syndicate's interest in the fund is a proportionate share of the underlying.

Loans to the Lloyd's Central Fund are classified as level 3 assets.

At 31 December, the syndicate's investments were allocated between the Levels 1, 2 and 3 as follows:-

2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	412.4	734.6	-	1,147.0
Shares and other variable yield securities	95.2	-	15.3	110.5
Debt funds	-	-	55.0	55.0
Lloyd's overseas deposits	25.7	76.4	-	102.1
Total	533.3	811.0	70.3	1,414.6

2019	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	335.4	743.9	-	1,079.3
Shares and other variable yield securities	94.8	-	-	94.8
Debt funds	-	-	53.5	53.5
Lloyd's overseas deposits	25.4	59.7	-	85.1
Total	455.6	803.6	53.5	1,312.7

At 31 December 2020 the syndicate had capital commitments to a number of debt fund companies up to a value of $19.5m (2019: $22.9m).

Notes to the financial statements

11 Deposit with ceding undertakings

	2020	2019
	$m	$m
Deposits with ceding undertakings	0.3	0.3
	0.3	0.3

12 Debtors arising out of direct insurance operations

	2020	2019
	$m	$m
Premiums due from intermediaries within one year	278.7	276.0
Premiums due from intermediaries after one year	-	0.5
	278.7	276.5

13 Debtors arising out of reinsurance operations

	2020	2019
	$m	$m
Reinsurance premiums due from ceding insurers and intermediaries within one year	62.6	45.9
Reinsurance premiums due from ceding insurers and intermediaries after one year	0.7	0.6
Reinsurance recoveries on paid claims due from reinsurers and intermediaries within one year	76.0	67.1
	139.3	113.6

14 Other debtors

	2020	2019
	$m	$m
Amounts due from group companies	1.3	8.9
Overseas taxes	0.5	-
Other debtors	6.0	0.9
Accrued interest	6.1	6.4
	13.9	16.2

Amounts owed by group companies are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

15 Statement of changes in member's balance

Year ended 31 December 2020	2017 YOA Closed $m	2018 YOA Closed $m	2019 YOA Open $m	2020 YOA Open $m	Funds in Syndicate $m	Total 2020 $m
Retained profit/(loss)						
At 1 January	(58.1)	(81.4)	(47.6)	-	-	(187.1)
Profit/(loss) for the year	-	85.1	(78.8)	(48.6)	-	(42.3)
At 31 December	(58.1)	3.7	(126.4)	(48.6)	-	(229.4)
Funds in Syndicate						
At 1 January	-	-	-	-	-	-
Funds from member	-	-	-	-	60.5	60.5
At 31 December	-	-	-	-	60.5	60.5
Cash (distributions)/ calls						
At 1 January	174.0	103.0	-	-	-	277.0
For the year	(115.9)	(21.8)	47.9	-	-	(89.8)
At 31 December	58.1	81.2	47.9	-	-	187.2
Net balance at 31 December	-	84.9	(78.5)	(48.6)	60.5	18.3

Year ended 31 December 2019	2016 YOA Closed $m	2017 YOA Closed $m	2018 YOA Open $m	2019 YOA Open $m	Funds in Syndicate $m	Total 2019 $m
Retained profit/(loss)						
At 1 January	(19.9)	(173.5)	(103.0)	-	-	(296.4)
Profit/(loss) for the year	-	115.4	21.6	(47.6)	-	89.4
At 31 December	(19.9)	(58.1)	(81.4)	(47.6)	-	(207.0)
Cash (distributions) / calls						
At 1 January	75.0	156.0	-	-	-	231.0
For the year	(55.1)	18.0	103.0	-	-	65.9
At 31 December	19.9	174.0	103.0	-	-	296.9
Net balance at 31 December	-	115.9	21.6	(47.6)	-	89.9

Notes to the financial statements

16 Technical provisions

Year ended 31 December 2020	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	550.3	1,530.9
Movement in the provision	26.5	182.4
Exchange adjustment	4.3	8.5
As at 31 December	581.1	1,721.8
Reinsurers' share of technical provisions		
As at 1 January	71.2	417.3
Movement in the provision	5.4	29.3
Exchange adjustment	0.2	0.8
As at 31 December	76.8	447.4
Net technical provision		
As at 31 December 2019	479.1	1,113.6
As at 31 December 2020	504.3	1,274.4

Year ended 31 December 2019	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	537.1	1,532.1
Movement in the provision	8.2	(12.7)
Exchange adjustment	5.0	11.5
As at 31 December	550.3	1,530.9
Reinsurers' share of technical provisions		
As at 1 January	84.5	399.9
Movement in the provision	(13.7)	15.4
Exchange adjustment	0.4	2.0
As at 31 December	71.2	417.3
Net technical provision		
As at 31 December 2018	452.6	1,132.2
As at 31 December 2019	479.1	1,113.6

Notes to the financial statements

16 Technical provisions (continued)

Claims development triangles

Whole account, underwriting year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Gross earned ultimate claims	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
12 months	607.5	314.8	312.4	315.6	271.8	270.0	477.5	324.2	287.2	299.0	
24 months	556.4	541.5	564.9	580.2	510.8	579.0	776.6	651.9	744.3		
36 months	524.7	532.0	543.2	618.7	523.1	608.3	799.4	741.0			
48 months	528.5	508.8	540.2	596.2	533.9	609.0	792.4	-			
60 months	546.4	521.0	540.1	609.3	548.5	619.7	-	-			
72 months	549.0	511.3	532.5	596.1	536.1	-	-	-			
84 months	544.0	504.4	505.5	575.5	-	-	-	-			
96 months	522.0	496.3	492.3	-	-	-	-	-			
108 months	543.0	497.0	-	-	-	-	-	-			
120 months	523.6	-	-	-	-	-	-	-			
Total gross earned ultimate losses	523.6	497.0	492.3	575.5	536.1	619.7	792.4	741.0	744.3	299.0	5,820.9
less paid claims	(521.0)	(456.6)	(457.2)	(514.0)	(465.6)	(481.1)	(580.7)	(398.6)	(226.2)	(55.8)	(4,156.8)
Gross claims liabilities	2.6	40.4	35.1	61.5	70.5	138.6	211.7	342.4	518.1	243.2	1,664.1
Provision in respect of prior years											57.7
Total provision in the balance sheet											1,721.8

Whole account, underwriting year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Net earned ultimate claims	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
12 months	464.4	254.7	254.5	268.6	232.8	232.3	293.0	243.6	215.5	254.8	
24 months	411.8	429.0	461.3	459.8	437.5	477.3	550.8	465.4	559.3	-	
36 months	391.9	432.5	446.5	479.9	444.5	510.0	562.5	528.1	-	-	
48 months	395.8	414.9	442.6	464.7	456.3	516.7	554.4	-	-	-	
60 months	395.1	418.7	440.9	468.1	468.6	520.1	-	-	-	-	
72 months	393.8	411.5	436.3	473.5	456.5	-	-	-	-	-	
84 months	395.6	405.6	424.2	460.2	-	-	-	-	-	-	
96 months	387.3	394.1	414.7	-	-	-	-	-	-	-	
108 months	391.3	394.1	-	-	-	-	-	-	-	-	
120 months	385.5	-	-	-	-	-	-	-	-	-	
Total net earned ultimate losses	385.5	394.1	414.7	460.2	456.5	520.1	554.4	528.1	559.3	254.8	4,527.7
less paid claims	(381.5)	(367.0)	(383.5)	(412.0)	(399.2)	(412.0)	(405.2)	(312.2)	(184.4)	(39.3)	(3,296.3)
Net claims liabilities	4.0	27.1	31.2	48.2	57.3	108.1	149.2	215.9	374.9	215.5	1,231.4
Provision in respect of prior years											43.0
Total provision in the balance sheet											1,274.4

17 Creditors arising out of direct insurance operations

	2020 $m	2019 $m
Due within one year	8.7	2.9
Due after one year	-	0.2
	8.7	3.1

18 Creditors arising out of reinsurance operations

	2020 $m	2019 $m
Due within one year	129.2	121.0
Due after one year	0.2	-
	129.4	121.0

19 Other creditors including taxation and social security

	2020 $m	2019 $m
Amounts due to group companies	79.8	98.2
Payable for investment purchase	-	2.9
	79.8	101.1

Amounts owed to group companies are unsecured, interest free, have no fixed date of payment and are payable on demand.

20 Post balance sheet events

The following amounts were approved to be distributed to/ (called from) the corporate member of Lloyd's underwriting on the Syndicate by the board on 25 February 2021 (prior year: 26 February 2020):-

	2020 $m	2019 $m
2018 (2017) underwriting year of account	84.9	115.9
2019 (2018) underwriting year of account	-	21.6
2020 (2019) underwriting year of account	-	(48.0)
	84.9	89.5

21 Related parties

Parent Companies

The immediate parent company of Talbot is Talbot Underwriting Holdings Ltd, a company registered in England and Wales.

The ultimate parent and controlling party of Talbot is American International Group, Inc ("AIG"). The registered office of which is 175 Water Street, New York, NY 10038, United States of America. AIG is listed on the New York Stock Exchange.

Corporate member

Talbot 2002 Underwriting Capital Ltd (T2002) is the sole corporate member underwriting on the syndicate.

During the year, distributions and cash calls between the syndicate and T2002 were as shown in note 15.

During the year, T2002 contributed $60.5m (2019: nil) to Funds in Syndicate (see note 23).

In accordance with the terms its agreement with Talbot, the managing agency, T2002 is charged an annual fee and a profit commission dependent on the result. The amount charged to T2002 is incurred on behalf of T2002 by the syndicate and included within personal expenses. The annual fee for 2020 was $8.3m (2019: $8.3m). No profit commission was chargeable in 2020 or 2019.

Coverholders

The following group companies provided services to the syndicate as coverholders and charged management fees to the syndicate on an arm's length basis.

	Management fees charged to the syndicate		(Receivable)/Payable by the syndicate at	
	2020	2019	31.12.2020	31.12.2019
	$m	$m	$m	$m
Talbot Underwriting Risk Services Ltd	0.0	(0.6)	(0.6)	(0.6)
Talbot Risk Services Pte Ltd	2.6	5.5	2.6	(0.5)
Talbot Australia	0.2	2.5	0.8	(0.4)
Talbot Underwriting (LATAM) S.A.	-	-	-	(0.2)
Talbot Underwriting Risk Services (MENA)	-	1.8	-	0.8
Validus Specialty Underwriting Services, Inc.	7.0	7.7	2.2	(0.3)
Validus Reaseguros, Inc.	0.7	0.2	0.2	(0.1)
	10.5	17.1	5.1	(1.4)

Management fees are stated before any reallocation to other acquisition costs or claims handling expenses.

21 Related parties (continued)

Service Companies

The following group companies provided services to the syndicate and charged management fees to the syndicates on an arm's length basis.

	Management fees charged to the syndicate		(Receivable)/Payable by the syndicate at	
	2020	2019	31.12.2020	31.12.2019
	$m	$m	$m	$m
Talbot Underwriting Services Ltd	78.2	82.9	73.4	90.3
Talbot Underwriting Ltd	-	-	(0.5)	(0.2)
Validus Research Inc.	3.4	3.8	0.7	3.5
Validus Services (Bermuda) Ltd	0.2	-	(0.1)	(6.5)
Validus America Inc.	0.7	1.8	(0.1)	1.4
Validus Services, Inc.	(0.4)	2.4	-	2.2
Validus Reinsurance, Ltd.	-	(0.6)	-	-
Western World Insurance Company	0.2	-	-	-
	82.4	90.3	73.4	90.7

Management fees are stated before any reallocation to other acquisition costs or claims handling expenses.

22 Capital

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

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, license and ratings objectives. Although 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 an overall member level.

Under Solvency II requirements, each syndicate is required to produce a Solvency Capital Requirement (SCR) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews the syndicates' SCRs to ensure that SCRs are consistent across the market, and must be approved by the Lloyd's Capital and Planning Group. Once the SCR is approved, the capital requirement is then uplifted (in 2020 and 2019, this was by 35%) to ensure this meets Lloyd's own internal capital requirements. This requirement is adjusted by the net assets or liabilities of the syndicate on a Solvency II basis to give a Funds at Lloyd's (FAL) requirement. The FAL requirement is satisfied by the deposit of cash, investments and letters of credit at Lloyd's together with any Funds in Syndicate (FIS, see note 23). FAL is used when the syndicate holds insufficient premium trust funds to cover claims arising from underwriting. During the fourth quarter, the FAL requirement of $785.9m (2019: $516.9m) was provided by various group companies and FIS.

An additional level of security is the Central Fund to which all syndicates contribute, based on their premium income, for every year of account. Claims may be paid out of the Central Fund once approved by the Council of Lloyd's if a syndicate's FAL cannot cover all claims.

23 Funds in Syndicate (FIS)

The member participates on the syndicate by underwriting year. The balance due/ (from) the member is payable on the closure of an underwriting year usually at the end of three years. Syndicate 1183 is wholly aligned to one member Talbot 2002 Underwriting Capital Ltd and therefore is able to retain closed year profits as capital to support its underwriting activities. The member may also pay additional funds into the syndicate to be held as capital. These are known as Funds in Syndicate (FIS).

Funds in syndicate are held to support the Funds at Lloyd's capital requirements. This gives syndicate 1183 the ability to manage these funds under the same investment management agreement as the other funds of the syndicate that are held within the premiums trust funds. The value of FIS at the balance sheet date was $60.5m (2019: nil).

24 Off balance sheet arrangements

Syndicate 1183 benefits from collateral pledged by ceded reinsurance counterparties, which is not held on the balance sheet. The collateral is held in segregated funds, and acts as additional security in the event of failure of those counterparties to meet their contractual obligations.

The syndicate has not been party to any other arrangements, which is not reflected in its statement of financial position, where material risk and benefits arise for the syndicate.

Seven year summary of closed year results at 36 months (unaudited)

	2012	2013	2014	2015	2016	2017	2018
Syndicate allocated capacity £m	600.0	620.0	625.0	625.0	600.0	600.0	650.0
Syndicate allocated capacity $m	936.0	917.6	765.0	843.8	765.3	795.9	888.2
Gross premiums 1	839.0	861.5	811.2	798.1	750.3	766.6	796.3
Net premiums	657.1	665.7	641.3	644.2	596.4	586.2	602.8
Reinsurance to close received	552.2	532.4	513.7	566.4	591.4	635.9	707.9
Net claims	(387.3)	(390.7)	(407.4)	(382.0)	(459.1)	(484.0)	(457.3)
Reinsurance to close paid	(540.1)	(534.2)	(555.1)	(599.6)	(629.1)	(703.3)	(737.3)
Underwriting result	281.9	273.2	192.5	229.0	99.6	34.8	116.1
Profit (loss) on exchange	(5.4)	(9.9)	(11.3)	(8.3)	(3.2)	2.1	(1.4)
Syndicate expenses	(105.4)	(99.8)	(102.2)	(123.5)	(120.1)	(123.3)	(130.4)
Balance on technical account	171.1	163.5	79.0	97.2	(23.7)	(86.4)	(15.7)
Investment return net of investment expenses	15.7	14.0	16.4	20.0	18.5	43.6	35.4
Profit / (loss) before personal expenses	186.8	177.5	95.4	117.2	(5.2)	(42.8)	19.7
Personal expenses							
Managing Agent’s fee	(9.4)	(9.2)	(7.8)	(8.4)	(7.7)	(8.0)	(8.9)
Profit commission	(25.7)	(24.1)	(12.2)	(15.3)	-	-	-
Contribution to Lloyd’s Central Fund	(2.0)	(4.0)	(3.1)	(3.5)	(3.1)	(3.4)	(3.5)
Lloyd’s subscription	(4.0)	(4.0)	(3.1)	(3.5)	(3.9)	(3.9)	(3.6)
	(41.1)	(41.3)	(26.2)	(30.7)	(14.7)	(15.3)	(16.0)
Profit / (loss) on ordinary activities after personal expenses	145.7	136.2	69.2	86.5	(19.9)	(58.1)	3.7
Exchange rates (GBP:USD)	0.64	0.67	0.81	0.74	0.78	0.75	0.73
Exchange rates (CAD:USD)	1.16	1.39	1.34	1.26	1.36	1.30	1.27
Gross premiums as a % of allocated capacity	89.8	93.9	106.0	94.6	98.0	96.3	89.7
Net premiums as a % of allocated capacity	68.4	72.5	83.8	76.3	77.9	73.7	67.9
Underwriting result as a % of gross premiums	29.2	31.7	23.7	28.7	13.3	4.5	14.6
Return on allocated capacity (%)	14.0	14.8	9.0	10.3	(2.6)	(7.3)	0.4

This summary does not form part of the audited accounts of the syndicate.

[1] Gross premiums are stated net of external acquisition costs.

Officers and professional advisors

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Talbot Underwriting Ltd
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Managing Agent's registered number

2202362

Directors

CE Barton	
DJ Batchelor	(Chairman, non-executive)
TA Bolt	(Non-executive)
NMA Burch	(Non-executive)
MEA Carpenter	(Non-executive)
JL Hancock	(Non-executive)
BJ Hurst-Bannister	(Non-executive)
C Rash	(Chief Executive)
JG Ross	
M Scales	(Non-executive)

Company secretary
M-C Gallagher

Syndicate
TAL Syndicate 1183

Active underwriter
I Peterson

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Citibank NA
Royal Bank of Canada
Barclays plc

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