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**Brit Syndicate 2988**  
Report and Accounts 2020



**BRIT**

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## Report of the Directors of the Managing Agent

The Directors of the Managing Agent, Brit Syndicates Limited (BSL) a company registered in England and Wales, present the report and annual accounts of Syndicate 2988 (the Syndicate) for the year ended 31 December 2020.

These annual accounts are prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (Lloyd's Regulations 2008).

### Principal activity and review of the business

The Syndicate's principal activity is the underwriting of general insurance and reinsurance business in the Lloyd's market.

The Syndicate participates only on new and renewal business written by Brit's Syndicate 2987. The strategy is to focus on business with a profitable track record and where there are opportunities to underwrite business that Brit leads or where Brit has a strong market presence. The underwriting strategy reflects the Directors' view of prevailing market conditions in the classes of business written by the Syndicate during the year.

The result for the 2020 calendar year is a loss of £35,187.9k (2019 loss: £10,146.8k). The result for the year reflects the impact of adverse claims experience, particularly from natural catastrophes and the losses arising from the Covid-19 pandemic.

The Syndicate's key performance indicators (KPI's) during the year were as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Gross premiums written	167,000.8	110,351.1
Net premiums written	151,411.3	94,879.5
Earned premiums, net of reinsurance	123,031.4	94,191.2
Underwriting result	(35,278.8)	(10,750.2)
Investment return	928.4	1,455.6
<b>Technical result for the financial year</b>	<b>(34,350.4)</b>	<b>(9,294.6)</b>
Non-technical account for the financial year	(837.5)	(852.2)
<b>Result for the financial year</b>	<b>(35,187.9)</b>	<b>(10,146.8)</b>
<b>Total comprehensive income for the financial year</b>	<b>(32,161.8)</b>	<b>(8,036.9)</b>
Claims ratio	94.4%	71.4%
Expense ratio	34.3%	40.0%
<b>Combined ratio</b>	<b>128.7%</b>	<b>111.4%</b>

## Report of the Directors of the Managing Agent (continued)

### Gross premiums written

An analysis of gross premiums written by Brit portfolio and division is set out below:

	2020 £'000	2019 £'000
<b>Short-Tail Direct</b>		
Property, Political Risks & Violence (PRV)	17,874.5	13,978.4
Property Facilities	20,521.1	23,880.2
Marine & Energy	10,926.9	5,596.6
Aviation (Space)	975.2	711.2
Accident & Health	6,993.6	7,376.2
<b>Long-Tail Direct</b>		
Professional Lines	26,862.3	17,784.2
Specialty Lines	6,255.8	5,699.7
Specialist Liability	4,848.0	1,778.0
<b>BGSU US Specialty</b>		
BGSU Casualty	2,156.7	3,422.6
BGSU Property	4,069.9	3,726.3
<b>Short-Tail Reinsurance</b>	21,690.4	15,295.8
<b>Long-Tail Reinsurance</b>	11,103.0	4,930.0
<b>Other</b>	31,887.2	0.0
Discontinued*	836.2	6,171.9
<b>Total</b>	<b>167,000.8</b>	<b>110,351.1</b>

\*2020 comparative represents the premiums written for those classes denoted as discontinued during 2019

In its fourth year of underwriting Syndicate gross written premiums increased 51.3% to £167,000.8k (2019: £110,351.1k). When adjusted for constant rates of exchange, premiums have increased 52.0% (2019 rebased at 2020 rates: £109,833.5k).

Actual written premiums for the 2020 financial year were above plan, with income in a number of classes being adversely impacted by the COVID-19 pandemic, but this was more than offset by opportunities in other classes. The estimated risk adjusted rate change on renewed premium was an increase of 10.8% (2019: 5.7%) with rate increases achieved on the majority of lines.

#### Short-Tail Direct

The Property divisions within Short-Tail Direct comprise US and International Property risks written on both an open market and delegated basis.

The Syndicate reported a premium increase in PRV when compared to 2019. A large part of this increase was driven by significant positive rate change achieved in both the North American and Worldwide Commercial property books.

Income from the Property Facilities division was down on both prior year and plan. The Covid-19 pandemic negatively impacted both the Commercial and Household property classes resulting in income levels lower than expectations. 2019 also included income relating to the High Value Household product which is no longer written in the Syndicate from 2019 onwards. In the remaining classes the Syndicate slightly underperformed plan premium, while achieving modest above plan rate increases.

The Marine account covers Cargo, Marine Liability, Specie and Energy, with the Syndicate taking the decision to not write Hull business in 2020 due to continued deterioration in the underwriting market and ongoing losses in this class. The Syndicate continued to take advantage of favourable rates in Cargo, with the class writing well over plan driven by a third consecutive year of positive rate movements.

## Report of the Directors of the Managing Agent (continued)

The Aviation class only includes Space risks. Gross premiums written from this class of business can be difficult to predict as it is dependent on the timing of satellite launches. The Syndicate wrote above plan in the year and above the premium written last year.

The Accident & Health business focusses primarily on Personal Accident and Contingency. These classes have been heavily impacted by COVID-19. Contingency business was only written for the first couple of months of 2020, with activity being minimal through the rest of the year. The Syndicate has also seen Personal Accident and Kidnap and Ransom come in under plan due to the pandemic with less international travel reducing the demand for these products.

### *Long-Tail Direct*

The Syndicate's Long-Tail Direct portfolio is focused on Cyber and Directors & Officers (D&O), and also includes a growing element of US Professional Indemnity (US PI) and International Public Liability (PL Int.) business.

Cyber continues to be a strategic growth class for the Syndicate. The Cyber Underwriting team have seen increasing new opportunities in the market with the Syndicate focusing primarily on open market rather than facilities placements. Following several years of rate reductions, the class also saw a modest increase in rate in 2020.

The D&O business is largely sourced through Ambridge Partners LLC, a US-based managing general underwriter which is wholly owned by the group. This enables Brit to influence the flow of business into its managed syndicates. Income from the class was below expectations for the year; this was due to a fall in M&A activity as a result of ongoing macro-economic uncertainty.

Both the US PI and PL Int classes continued to exceed their growth targets, writing above plan in 2020 and well ahead of the premium written in 2019. This was accompanied by above plan rate growth.

### *Brit Global Specialty USA (BGSU)*

BGSU represents business sourced through a dedicated Service Company, Brit Insurance Services Inc. BGSU covers a wide range of property and casualty classes written on an Excess and Surplus (E&S) basis and provides access to risks that would not typically reach the London Market through traditional routes.

Income in the BGSU Casualty portfolio reduced in 2020 largely driven by a change in underwriting appetite within the Liability SIR class. However, the BGSU Property portfolio grew year-on-year, largely due to the Programs class which saw growth above plan and significantly above prior year premiums.

### *Short-Tail Reinsurance*

The Short-Tail Reinsurance portfolio includes both Treaty Risk and Treaty Catastrophe business with a North American focus, as well as a smaller book of International Treaty Catastrophe business.

The Property Treaty market has been and continues to be very competitive, which creates a challenge deploying Syndicate 2988's capacity across a diverse portfolio of risks.

To address this, the Syndicate entered into a Property Treaty quota share with 2987 in 2020 and ceased writing Property Treaty business directly into the Syndicate. This gives the Syndicate wider exposure to Treaty risks and allows for more diversification in 2988 income from this business. This new arrangement allowed the Syndicate to benefit from the growth in Syndicate 2987's book of business and significantly increase its premium year on year as can be seen in the above table.

### *Long-Tail Reinsurance*

The Long Tail Reinsurance team writes Treaty Risk and Treaty Catastrophe, with the portfolios being split between Long Tail and Short Tail books.

The Syndicate continued to see good traction in growing the Long Tail Risk and Catastrophe classes, with Long Tail Risk writing significantly above plan with double digit rate growth. This increase was further supported by significant prior year premium development on the 2019 YoA.

## Report of the Directors of the Managing Agent (continued)

As one of the best performing portfolios within Brit, the Syndicate will seek to gradually increase deploying capacity to this class over time.

### *Other*

In 2020, Syndicate 2988 entered into a whole account quota share agreement with Syndicate 2987. This provided a significant boost in scale to the Syndicate, by increasing GWP by £31,887.2k in 2020, on top of the organic growth noted above. This agreement provides significant benefits to the Syndicate, increasing the diversity of risks that the Syndicate is exposed to while also allowing it to benefit from the reinsurance protections that 2987 has in place on those risks.

### *Discontinued*

Active portfolio management is core to the way that Brit manages its business. Over the past several years, decisions have been made to withdraw from classes which have underperformed and for which there is no clear path to profitability in the short to medium term. These classes are segregated from the rest of the ongoing business and reported within a 'Discontinued' portfolio. The amount of premium being report within this portfolio has reduced significantly year-on-year. The decision to exit several classes was made towards the end of 2018 and into 2019, notably Engineering & CPE and BGSU Latin American business which resulted in a material amount of income being reported in this portfolio in 2019. During 2020 the impact of exited classes has had much less of an impact on the Syndicate's income.

## **Outwards reinsurance**

The reinsurance strategy for 2020 was consistent with previous years, being focused on providing aggregate protection against catastrophe losses.

The Syndicate renewed its catastrophe aggregate excess of loss cover which provides protection for the Syndicate's Property Direct and Reinsurance business, as well as a contribution towards Marine losses. Reflecting the growth in the underlying book, both the deductible and limit on the cover were increased in line with exposure.

The Syndicate also renewed its Cyber specific reinsurance protection for 2020. The protection combines both excess of loss protection and a stop loss, reflecting the potential for both large single risk losses as well as the accumulation of losses in this class due to systemic events.

Additionally, the Syndicate purchased a new Multi-Line Risk XL covering non elemental perils in its long and short tail lines. This new reinsurance was purchased to reduce volatility and to allow the Syndicate to put down larger lines when profitable business is presented.

## **Underwriting Result**

The Syndicate reported an underwriting loss of £35,278.8k (2019 loss: £10,750.2k) and a combined ratio of 128.7% (2019: 111.4%). The Syndicate has been significantly impacted by the Covid-19 pandemic and losses from natural catastrophes, particularly windstorms in the United States.

## Report of the Directors of the Managing Agent (continued)

The table below sets out the impact of major losses on the Syndicate's results analysed by event:

<b>Major losses</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
COVID-19	34,645.2	-
Hurricane Laura	7,437.7	-
Nashville Tornados	1,450.0	-
Hurricane Sally	2,899.7	-
US Riots	1,254.1	-
Hurricane Zeta	2,079.7	-
Hurricane Dorian	-	1,948.7
Typhoon Faxai	-	925.9
Typhoon Hagibis	-	2,845.1
<b>Total</b>	<b>49,766.4</b>	<b>5,719.7</b>
<b>Effect on the COR%</b>	<b>40.5%</b>	<b>6.1%</b>

COVID-19 has been a significant loss event, primarily concentrated in the Contingency class due to event cancellations, though also hitting the Casualty Treaty business. The loss estimates above accounts for loss exposure to events planned to be held up to the year end and those which are expected to be cancelled/postponed. Additionally, the Syndicate has posted an Unexpired Risk Provision of £2.5m at average rates of exchange and a Risk Margin of £1.3m which is included in the COVID-19 estimate above. The impact of the pandemic has added 28.2% to the combined ratio for 2020.

2020 saw an elevated frequency of named US windstorms. The Syndicate picked up losses from several of those events, with the material ones being classified as major losses and set out in the table above. Coupled with losses from the Nashville Tornadoes and US Civil Unrest earlier in the year, these events contributed 12.3% to the combined ratio, compared to 6.1% in the prior year.

Absent the 2020 major loss events, the loss ratio is 53.9% (2019: 65.3%). This reduction relative to the prior year is driven by favourable experience on the 2019 and 2018 years, as well as the impact of the improving rating environment on the loss ratios for the 2020 year of account.

The expense ratio for the 2020 financial year of 34.3% has decreased compared to the prior year (40.0%). This is predominantly driven by a reduction in the Acquisition Cost ratio due to the Property Treaty Quota Share and the Whole Account Quota Share contracts driving significant premium growth with lower acquisition costs than the average across the business. The Syndicate also paid off the outstanding balance on its borrowings from credit institutions, reducing its borrowing costs year on year. As a material element of the Syndicate's administrative expense base is fixed and determined on planned gross premiums, the Syndicate's income being above plan has a positive impact on the expense ratio.

### Investment Return

Total investment return net of investment management fees was £928.4k (2019: £1,455.6k).

Despite the market volatility due to COVID-19, the investment portfolio performed strongly in the first half of the year due to the Syndicate's investment strategy. The portfolio performance was weaker in the second half of the year due to falling yields on government debt.

The portfolio of investments during 2020 was broadly consistent with 2019, but the Syndicate increased the investment managers mandate to include corporate bonds in Q3 2020 in order to diversify the portfolio and to increase investment return.

### Syndicate outlook

The stamp capacity for the 2021 year of account has increased 16.4% to £173.5m (2020 year of account £149.0m) with the level of planned premium being written off this stamp increasing by 14.6%.



## **Report of the Directors of the Managing Agent (continued)**

The 2021 plan promotes continued diversification of the Syndicate's portfolio, by growing the 'High Performing' and 'Core Growth' segments such as Casualty Treaty. Growth in Syndicate 2988 premium is largely a function of greater penetration into Syndicate 2987's business plus selective growth of existing business.

### **Going concern**

Following a review of the financial performance and position of the Syndicate the Directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the report and accounts.

### **Principal risks and uncertainties**

The information on principal risks and uncertainties is disclosed in note 3 to the accounts.

### **Employee and environmental matters**

All staff in the UK are employed by Brit Group Services Limited, the group services company and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.

Brit is committed to managing and reducing its environmental impact in a cost effective and responsible way.

### **Directors**

The names of the current Directors of the Managing Agent and those who have served during the year are shown on page 48.

### **Independent Auditors**

PricewaterhouseCoopers LLP remain in office as the Syndicate's Auditors.

### **Statement of disclosure of information to the Auditors**

Each person who is a Director of the Managing Agent at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information, being information needed by the Syndicate's auditors in connection with its report, of which the Syndicate's auditors are unaware; and
- he or she has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

### **Syndicate Annual General Meeting**

In accordance with the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000) the Managing Agent does not propose holding a Syndicate Annual General Meeting of members of Syndicate 2988. Objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members to the Compliance Officer at the Managing Agent's registered address by 20 April 2021.

On behalf of the Board,

**Matthew Wilson**  
Chief Executive Officer  
01 March 2021

## Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

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

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

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

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

## **Independent Auditor’s Report to the Members of Syndicate 2988**

### **Report on the syndicate annual accounts**

#### **Opinion**

In our opinion, Syndicate 2988’s syndicate annual accounts (the “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 2020 (the “Annual Report”), which comprise: the statement of financial position as at 31 December 2020; the income statement, the statement of comprehensive income, the statement of changes in members’ balances 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 and other explanatory information.

#### **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 Auditor's Report to the Members of Syndicate 2988 (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 Report of the Directors of the Managing Agent (the "Managing Agent's Report"), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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. 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.

## **Independent Auditor's Report to the Members of Syndicate 2988 (continued)**

We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and management bias in accounting estimates such as valuation of the IBNR component of insurance contract liabilities, accrued pipeline premium and investments with valuations modelled using unobservable inputs. Audit procedures performed included:

- Discussions with the audit committee, management, internal audit and the director of legal and compliance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations/narrative in journal description or posted by or on behalf of senior management.
- Assessment of matters reported on the Managing Agent's whistleblowing helpline and the results of management's investigation of such matters.
- Reading key correspondence with regulatory authorities which included, the Council of Lloyd's, the Financial Conduct Authority and the Prudential Regulation Authority ("PRA") in relation to compliance with laws and regulations (including meeting with the PRA).
- Reviewing relevant meeting minutes including those of the Risk Committee and the Reserving Committee.
- Reviewing the Managing Agent's list of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud.
- Procedures relating to valuation of the IBNR component of insurance contract liabilities, accrued pipeline premium and investments with valuations modelled using unobservable inputs.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### **Use of this report**

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

### **Other required reporting**

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2018, we are required to report to you if, in our opinion:

- we have not received 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.

**Mark Bolton (Senior statutory auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**London**  
**02 March 2021**

## Income Statement

Technical Account – General Business for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Gross premiums written	4	167,000.8	110,351.1
Outward reinsurance premiums		(15,589.5)	(15,471.6)
<b>Net premiums written</b>		<b>151,411.3</b>	<b>94,879.5</b>
Change in the gross provision for unearned premiums	11	(29,164.6)	(1,504.8)
Change in the provision for unearned premiums, reinsurers' share	11	784.7	816.5
<b>Net change in the provision for unearned premiums</b>		<b>(28,379.9)</b>	<b>(688.3)</b>
Earned premiums, net of reinsurance		123,031.4	94,191.2
Allocated investment return transferred from the non-technical account		928.4	1,455.6
<b>Total technical income</b>		<b>123,959.8</b>	<b>95,646.8</b>
Claims paid:			
Gross amount	12	(60,940.7)	(52,231.7)
Reinsurers' share	12	5,235.6	10,129.5
<b>Net claims paid</b>		<b>(55,705.1)</b>	<b>(42,102.2)</b>
Change in the provision for claims:			
Gross amount		(57,605.2)	(18,103.9)
Reinsurers' share		(2,855.5)	(7,013.9)
<b>Net change in the provision for claims</b>		<b>(60,460.7)</b>	<b>(25,117.8)</b>
Claims incurred, net of reinsurance	12	(116,165.8)	(67,220.0)
Net operating expenses	5	(42,144.4)	(37,721.4)
<b>Total technical charges</b>		<b>(158,310.2)</b>	<b>(104,941.4)</b>
<b>Balance on the technical account for general business</b>		<b>(34,350.4)</b>	<b>(9,294.6)</b>

The accompanying notes are an integral part of these accounts.

## Income Statement

Non - Technical Account for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
<b>Balance on the technical account for general business</b>		<b>(34,350.4)</b>	<b>(9,294.6)</b>
Investment income		558.4	1,125.3
Unrealised gains on investments		50.3	4.2
Realised gains on investments		370.1	332.6
Investment management charges		(50.4)	(6.5)
<b>Net investment return</b>	8	<b>928.4</b>	<b>1,455.6</b>
Allocated investment return transferred to general business technical account	8	(928.4)	(1,455.6)
Loss on exchange		(837.5)	(852.2)
<b>Result for the financial year</b>		<b>(35,187.9)</b>	<b>(10,146.8)</b>

## Statement of Comprehensive Income

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
<b>Result for the financial year</b>		<b>(35,187.9)</b>	<b>(10,146.8)</b>
Currency translation differences		3,026.1	2,109.9
<b>Total comprehensive income for the financial year</b>		<b>(32,161.8)</b>	<b>(8,036.9)</b>

The accompanying notes are an integral part of these accounts.

## Statement of Changes in Members' Balances

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Members' balances as at 1 January		(52,981.1)	(44,944.2)
Total comprehensive income for the financial year		(32,161.8)	(8,036.9)
Distribution of the closed year of account		26,087.8	-
<b>Members' balances carried forward at 31 December</b>		<b>(59,055.1)</b>	<b>(52,981.1)</b>

The Members' balances relate entirely to Underwriting participation.

The accompanying notes are an integral part of these accounts.



## Statement of Financial Position

Assets

as at 31 December 2020

	Note	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Investments:</b>			
Financial investments	10	77,312.5	50,125.1
		<b>77,312.5</b>	<b>50,125.1</b>
<b>Reinsurers' share of technical provisions:</b>			
Provision for unearned premium	11	2,348.3	1,664.7
Claims outstanding	12	8,654.4	11,740.5
		<b>11,002.7</b>	<b>13,405.2</b>
<b>Debtors:</b>			
<b>Debtors due within one year:</b>			
Debtors arising out of direct insurance operations		30,172.3	24,991.8
Debtors arising out of reinsurance operations		31,985.9	13,639.2
Other debtors	18	997.6	34,647.2
<b>Debtors due after one year:</b>			
Debtors arising out of direct insurance operations		-	0.3
		<b>63,155.8</b>	<b>73,278.5</b>
<b>Other assets:</b>			
Cash at bank and in hand	13	7,549.3	646.5
Other	14	9,277.2	8,008.2
		<b>16,826.5</b>	<b>8,654.7</b>
<b>Prepayments and accrued income:</b>			
Deferred acquisition costs	15	13,474.1	10,916.5
Prepayments and accrued income:		83.5	11.4
		<b>13,557.6</b>	<b>10,927.9</b>
<b>Total assets</b>		<b>181,855.1</b>	<b>156,391.4</b>

## Statement of Financial Position

### Liabilities

as at 31 December 2020

	Note	2020 £'000	2019 £'000
<b>Members' balances and liabilities</b>			
Members' balances		(59,055.1)	(52,981.1)
		<b>(59,055.1)</b>	<b>(52,981.1)</b>
<b>Technical provisions:</b>			
Provision for unearned premium	11	70,235.5	43,556.1
Claims outstanding	12	160,891.9	108,529.3
		<b>231,127.4</b>	<b>152,085.4</b>
<b>Creditors:</b>			
Creditors arising out of direct insurance operations	16	898.1	193.9
Creditors arising out of reinsurance operations		6,220.1	6,505.3
Amounts due to credit institutions	17	-	9,058.3
Other creditors	18	(314.4)	33,901.9
		<b>6,803.8</b>	<b>49,659.4</b>
Accruals and deferred income		2,979.0	7,627.7
<b>Total liabilities</b>		<b>240,910.2</b>	<b>209,372.5</b>
<b>Total members' balances and liabilities</b>		<b>181,855.1</b>	<b>156,391.4</b>

The accompanying notes are an integral part of these accounts.

The annual accounts on pages 12 to 47 were approved by the Board of Brit Syndicates Limited on 01 March 2021 and signed on its behalf by:

**Matthew Wilson**  
Chief Executive Officer

**Mark Allan**  
Chief Financial Officer

**Statement of Cash Flows**  
for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
<b>Cash flows from operating activities</b>			
Result for the financial year		(35,187.9)	(10,146.8)
Movement in gross unearned premiums and outstanding claims		86,769.8	19,608.7
Movement in reinsurers' share of unearned premiums and outstanding claims		2,070.8	6,197.4
Decrease/(increase) in debtors		7,376.5	(38,651.7)
(Decrease)/increase in creditors		(44,065.3)	36,093.0
Movement in other assets/liabilities		(8,801.1)	(3,550.5)
Foreign exchange on operating activities		2,246.6	1,187.6
Investment return		(928.4)	(1,455.6)
<b>Net cash flows from operating activities</b>		<b>9,481.0</b>	<b>9,282.1</b>
<b>Cash flows from investing activities</b>			
Purchase of equity and debt instruments		(258,819.2)	(255,621.7)
Sale of equity and debt instruments		258,002.4	236,567.8
Investment income received		878.1	1,451.4
<b>Net cash flow from/(used in) investing activities</b>		<b>61.3</b>	<b>(17,602.5)</b>
<b>Cash flows from financing activities</b>			
Distribution of closed year results		26,087.8	-
<b>Net cash flows from financing activities</b>		<b>26,087.8</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>35,630.1</b>	<b>(8,320.4)</b>
Cash and cash equivalents at 1 January		7,815.5	17,317.7
Foreign exchange on cash and cash equivalents		(1,633.6)	(1,181.8)
<b>Cash and cash equivalents at 31 December</b>	13	<b>41,812.0</b>	<b>7,815.5</b>

## Notes to the Accounts

for the year ended 31 December 2020

### 1 Accounting policies, statement of compliance and basis of preparation

#### 1.1 Statement of compliance and basis of preparation

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

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

The financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The annual basis of accounting has been applied to all classes of business written by the Syndicate.

The Directors of the Managing Agent have prepared the annual accounts on the going concern basis that the Syndicate will continue to write future business. The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities.

The financial statements are reported in Sterling, which is the presentational currency of the Syndicate, and rounded to the nearest £'000, unless otherwise stated. The functional currency of the Syndicate is the United States dollar (US\$).

#### 1.2 Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

#### 1.3 Significant accounting policies

##### 1.3.1 Insurance contracts

The results for all classes of business have been determined on an annual basis, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premium written, net of reinsurance, as follows:

##### a. Premiums

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued and include estimates of premiums due but not yet received or notified, less an allowance for cancellations. Premiums are accreted to the technical account on a pro rata basis over the term of the related policy, except for those contracts where the period of the risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are accreted to the technical account on a pro rata basis over the term of the original policy to which it relates. Premiums are stated gross of commissions, but net of premium taxes and other duties levied on premiums.

Premiums during the 2020 calendar year also include a same-day transaction of cash consideration paid and received to reflect the transfer of European Economic Area (EEA) insurance liabilities from the syndicate to Lloyd's Insurance Company S.A. (LIC) and the reinsurance of the same EEA insurance liabilities by LIC back to the Syndicate under a separate reinsurance contract, under a Part VII scheme. More information on the Part VII transfer is disclosed under note 4.

## Notes to the Accounts

for the year ended 31 December 2020

### 1 Accounting policies, statement of compliance and basis of preparation (continued)

#### b. Profit commissions

Income arising from whole account quota share contracts is recognised when the economic benefits are highly probable. These are netted off against commission costs which are included within the 'acquisition costs' line in the income statement.

#### c. Deferred acquisitions costs

Commission and other acquisition costs incurred during the financial period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.

#### d. Claims

Claims incurred comprise claims and claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any adjustments to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

Claims outstanding represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the date of the statement of financial position, including IBNR, less any amounts paid in respect of those claims.

Claims provisions have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims IBNR.

While the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in income statement for the period in which the adjustments are made.

#### e. Provision for unearned premiums

The proportion of written premiums that relate to unexpired terms of policies in force at the date of the statement of financial position is deferred as a provision for unearned premiums, generally calculated on a time apportioned basis. The movement in the provision is taken to the Technical Account in order that revenue is recognised over the period of the risk.

#### f. Unexpired risks provision

Provision is made for any deficiencies arising when unearned premiums, net of related deferred acquisition costs, are insufficient to meet expected claims and expenses. The expected claims are calculated having regard to events that are relevant to the provision at the date of the statement of financial position. Unexpired risk surpluses and deficits are offset where business classes are managed together, and a provision is made if an aggregate deficit arises. At 31 December 2020, the Syndicate has an unexpired risks provision of £2,398.2k (2019: £nil). This Unexpired risk provision relates to COVID-19 losses. This is included within the claims outstanding liability on the balance sheet.

#### g. Reinsurance

The Syndicate assumes and cedes reinsurance in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the income statement along the same basis as direct business, taking into account the product classification. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are included in the respective expense and income accounts. Reinsurance outwards premiums are earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are expensed on the same basis as the inwards business being protected.

## Notes to the Accounts

for the year ended 31 December 2020

### 1 Accounting policies, statement of compliance and basis of preparation (continued)

Reinstatement premiums on both inwards and outwards business are accreted to the Technical Account on a pro rata basis over the term of the original policy to which they relate.

Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are calculated with reference to the claims liability associated with the reinsured risks. Revenues and expenses arising from reinsurance agreements are therefore recognised with the underlying risk of the business reinsured.

Gains or losses on buying reinsurance are recognised immediately in the Technical Account and not subject to amortisation.

If a reinsurance asset is impaired, the Syndicate reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the Technical Account. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of that asset, that the Syndicate may not receive all amounts due to it under the terms of the contract, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer.

#### h. Expenses and other income receivable

The Managing Agent has charged the Syndicate a fixed fee and has borne all the management expenses of the Syndicate, other than those related to the direct cost of underwriting and investment management charges. Investment management charges are netted off against investment return as disclosed in note 8. Any internal or external claims adjustment or settlement costs are included within gross claims paid.

The Managing Agent also charges the Syndicate profit commission equal to a fixed percentage of profit for each year of account. An accrual is recognised as and when the year of account becomes profitable, with payment crystallising on closure of the year of account after three years. No such profit commission was charged or accrued for in the calendar year to 31 December 2020 (2019: £nil).

#### i. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Fair value is normally determined by reference to the fair value of the proceeds received. Any difference between the initial carrying amount and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest rate method.

### 1.3.2 Investments

#### a. Financial investments

The Syndicate has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL). This is in accordance with the Syndicate's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Directors of the Managing Agent and management personnel on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (which are the principal markets or the most advantageous markets that maximise the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability) is based on quoted market bid and ask price for both financial assets and financial liabilities respectively.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques which include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Gains and losses on investments designated as FVTPL are recognised through the income statement. Interest income from investments in bonds and short term investments is recognised at the effective interest rate.

## Notes to the Accounts

for the year ended 31 December 2020

### 1 Accounting policies, statement of compliance and basis of preparation (continued)

#### b. Investment return

Investment return comprises all investment income, interest receivable, realised and unrealised investment gains and losses, dividend income and overseas deposit income. Interest income is recognised using the effective interest rate method.

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

#### 1.3.3 Measurement of other financial assets and financial liabilities

Other financial assets and financial liabilities are initially recognised at transaction price and subsequently measured at amortised cost using the effective interest rate method.

#### 1.3.4 Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Syndicate becomes a party to the contractual provisions of the contract. A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred, and the transfer qualifies for derecognition under a combination of risks and rewards and control tests.

A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

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

If the carrying value of an asset is impaired, it is reduced to the recoverable amount by an immediate charge in the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### 1.3.5 Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings.

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

#### 1.3.6 Pension costs

Brit Group Services Limited operates a defined contribution pension scheme on behalf of the Managing Agent. Contributions are charged to the Syndicate within the fixed fee.

## Notes to the Accounts

for the year ended 31 December 2020

### 1 Accounting policies, statement of compliance and basis of preparation (continued)

#### 1.3.7 Foreign currencies

In accordance with FRS102, the functional currency is the currency of the primary economic environment in which the Syndicate operates. The functional currency for Syndicate 2988 is the US dollar. The annual accounts are presented in Sterling. Foreign exchange resulting from translating balances from the functional currency to the presentational currency is reported in other comprehensive income.

Unless otherwise stated, transactions in Sterling, Canadian dollars and Euros are translated into the functional currency at average rates of exchange. Transactions in foreign currencies other than Sterling, US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities in currencies other than the functional currency are translated at the rate of exchange ruling at 31 December of each year. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Syndicate insurance operations are included within the Non-Technical account as prescribed by FRS 103.

#### 1.3.8 Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

### 2 Critical accounting judgements and key sources of estimation uncertainty

Various assumptions are made that affect the reported amounts of assets and liabilities. Estimates and judgements are regularly re-evaluated and are based on a combination of historical experience and other factors, including exposure analysis, expectations of future experience and expert judgement.

#### 2.1 Insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Syndicate will ultimately pay to settle such claims. Significant areas requiring estimation and judgement include:

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims (IBNR) to be included within provisions for inwards insurance and reinsurance contracts;
- The corresponding estimate of the amount of outwards reinsurance recoveries which will become due as a result of the estimated claims on inwards business;
- The recoverability of amounts due from reinsurers; and
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

The assumptions used and the manner in which these estimates and judgements are made are set out below, including the reserving process for the estimation of gross, and net of reinsurance, ultimate premiums and claims:

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). Given the early stage of development for the Syndicate, these methods have typically relied on benchmark information e.g. from similar business written by BSL into Syndicate 2987;
- In the event of catastrophe losses, and prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised modelling software and detailed reviews of contracts exposed to the event in question.



## Notes to the Accounts

for the year ended 31 December 2020

### 2 Critical accounting judgements and key sources of estimation uncertainty (continued)

The estimates and judgements are applied in line with the overall reserving philosophy and seek to state the claims provisions on a best estimate, undiscounted basis. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position.

Brit has adopted a comprehensive approach to reserving for COVID-19 related losses, in line with its policy of reserving on a 'conservative best estimate' basis and carrying an explicit risk margin above that 'conservative best estimate'. A detailed analysis of the principal exposed classes has resulted in net COVID-19 related losses of £34,645.2k, £2,398.2k of which was carried as an unexpired risk reserve recognised in respect of events dated after 31 December 2020. The Syndicate's main exposures to COVID-19 relates to Contingency and Casualty Treaty accounts, with lower levels of exposure in Property, Property Treaty and Personal Accident. Significant uncertainties remain around the 2020 loss estimates given the complexities of the pandemic. Furthermore, as the pandemic continues, there remains uncertainty in relation to contingency business and events scheduled for 2021, with questions remaining as to factors such as the roll out and effectiveness of vaccines, and the roadmap to reducing or ending restrictions. The Syndicate will continue to monitor developments, the legal landscape and all impacted areas of the business.

In addition to claims provisions, the reserve for future loss adjustment expenses is also subject to estimation with consideration being given to the level of internal and third-party loss adjustment expenses incurred annually. The estimated loss adjustment expenses are expressed as a percentage of gross claims reserves and the reasonableness of the estimate is assessed through benchmarking. Further judgements are made as to the recoverability of amounts due from reinsurers. Provisions for bad debts are made specifically, based on the solvency of reinsurers, internal and external ratings, payment experience with them and any disputes of which the Syndicate is aware.

#### 2.2 Pipeline premium

Written premiums include pipeline premium of £53,081.0k (2019: £28,463.2k) which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on actuarial estimates which are benchmarked against the results of standard actuarial projection techniques to assess reasonableness.

#### 2.3 Fair value of financial assets determined using valuation techniques

Financial investments are carried in the statement of financial position at fair value. Determining the fair value of certain investments requires estimation techniques, using designated methodologies, estimations and assumptions.

The Syndicate values investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the statement of financial position, represent the majority of the invested assets. The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with UK GAAP.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); the lowest priority to unobservable inputs that reflect the assumptions that the Syndicate considers market participants would normally use (level three). To the extent that valuations is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement and accordingly, those instruments included in level three will require a greater degree of judgement to be exercised during valuation than for those included in level two or level one.

The measurement basis for assets carried at fair value is categorised into a fair value hierarchy, details of these methods and assumptions are described in note 10.

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties

#### 3.1 Insurance risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when an insurance product was designed and priced. The actual performance of insurance contracts is subject to the inherent uncertainty in the occurrence, timing and amount of the final insurance liabilities. This is the principal risk the Syndicate is exposed to as its primary function is to underwrite insurance contracts. The risk arises due to the possibility of insurance contracts being under-priced, under-reserved or subject to unforeseen catastrophe claims.

The areas of insurance risk discussed below include: underwriting (including aggregate exposure management), reinsurance and reserving.

##### a. Underwriting risk

Underwriting risk is the risk that insurance premiums will not be sufficient to cover the future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process by the Syndicate because of unpredictable events.

The Syndicate is also exposed to the risks resulting from its underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. Although premium rates have risen over recent years, this follows a number of years of downwards pressure and this trend has been factored into the Syndicate's pricing models and risk management tools and is continually monitored to assess whether any corrective action is required. Additional controls over the underwriting strategy are described in the section below.

The Syndicate writes all of its business through Lloyd's and therefore can take advantage of Lloyd's centralised infrastructure and service support. Lloyd's also has an established global distribution framework, with extensive licensing agreements providing the Syndicate access to over 200 territories. Exclusively using the Lloyd's platform subjects the Syndicate to a number of resulting underwriting risks.

##### (i) Controls over underwriting strategy

The BSL Board sets the Syndicate's underwriting strategy for accepting and managing underwriting risk. The Underwriting Committee, chaired by the Chief Underwriting Officer, meets regularly to drive the underwriting strategy and to monitor performance against the plans. The assessment of underwriting performance is all-encompassing applying underwriting key performance indicators (KPIs), technical pricing management information (MI), premium monitoring, delegated underwriting operations and claims. The risks are managed by the committee in line with the underwriting risk policy and within the risk tolerance set by the Board. The underwriting risk policy also sets out a number of controls, which are summarised below:

The Managing Agent carries out a detailed annual business planning process for each of the Syndicate's underwriting units. The resulting plans set out premium, territorial and aggregate limits and reinsurance protection thresholds for all classes of business and represent a key tool in managing concentration risk. Performance against the plans is monitored on a regular basis by the Underwriting Committee as well as by the Board. A dedicated Risk Aggregation team also performs analysis including Realistic Disaster Scenarios (RDS) on a regular basis to ensure that the Syndicate's net losses remain within its risk appetite.

The Managing Agent has developed underwriting guidelines, limits of authority and business plans for the Syndicate which are binding upon all staff authorised to underwrite. These are detailed and specific to underwriters and classes of business. Gross and net line size limits are in place for each class of business with additional restrictions in place on catastrophe exposed business.

A proportion of the Syndicate's insurance risks are written by third parties under delegated underwriting authorities, with the remaining being written through individual risk acceptances or through reinsurance treaties. The third parties are closely vetted in advance and are subject to tight reporting requirements. In addition, the performance of these contracts is closely monitored by underwriters and/or portfolio managers, with regular audits being carried out.

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

The technical pricing framework ensures that the pricing process in the Syndicate is appropriate. It ensures pricing methodologies are demonstrable and transparent and that technical (or benchmark) prices are assessed for each risk. The underwriting and actuarial functions work together to maintain the pricing models and assess the difference between technical price and actual price. The framework also ensures that sufficient data is recorded and checked by underwriters to enable the Syndicate to maintain an effective rate monitoring process.

Compliance is checked through both a peer review process and, periodically, by the Managing Agent's Internal Audit department which is entirely independent of the underwriting units.

In order to limit risk, the number of reinstatements per policy is limited, deductibles are imposed, policy exclusions are applied and whenever allowed by statute, maximum indemnity limits are put in place per insured event.

#### (ii) Underwriting risk profile

The core insurance portfolio of property, marine and casualty (including liability), covers a variety of largely uncorrelated events and also provides some protection against the underwriting cycle as different classes are at different points in the underwriting cycle. The underwriting portfolio is managed to target top quartile underwriting performance and the mix of business is continually adjusted based on the current environment (including the current pricing strength of each class). This assessment is conducted as part of the business planning and strategy process which operates annually and uses inputs from the technical pricing framework. The business plan is approved by the BSL Board and is monitored monthly.

#### (iii) Geographical concentration of premium

The Syndicate enters into policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Syndicate to benefit from a wide geographic diversification of risk. The principal location of the Syndicate's policyholders is the United States. The concentration of insurance premium before and after reinsurance by the location of the underlying risk is summarised below:

<b>Premiums written</b>	<b>Gross</b>	<b>Net</b>
<b>2020</b>	<b>£'000</b>	<b>£'000</b>
United States	53,298.6	46,856.3
United Kingdom	9,682.3	8,992.6
Europe (excluding UK)	2,794.1	2,636.3
Other (including worldwide)	101,225.8	92,926.1
<b>Total</b>	<b>167,000.8</b>	<b>151,411.3</b>

	<b>Gross</b>	<b>Net</b>
<b>2019</b>	<b>£'000</b>	<b>£'000</b>
United States	56,505.8	44,399.1
United Kingdom	6,093.9	5,677.2
Europe (excluding UK)	1,582.0	1,515.9
Other (including worldwide)	46,169.4	43,287.3
<b>Total</b>	<b>110,351.1</b>	<b>94,879.5</b>

The nature of the London Market business is such that the insureds and reinsureds are often operating on a multi-territory or worldwide basis and hence coverage is often provided on a worldwide basis. Premiums written on a multi-territory or worldwide basis are included in 'Other' in the table above.

#### (iv) Portfolio mix

The Syndicate underwrites a business mix of both insurance and reinsurance, long and short tailed business across several geographic areas which results in a diversification of the Syndicate's portfolio. The business mix is monitored with focus on the short tail vs. long tail split and the proportion of delegated underwriting business. Delegated underwriting represents approximately 30.2% of the portfolio as at 31 December 2020 (2019: 42.2%).

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

Gross premium written		2020		2019	
		£'000	%	£'000	%
<b>Short-Tail Direct insurance</b>	Property, Political Risks and Violence, Property Facilities, Marine, Aviation (Space), Accident & Health	57,291.3	34%	51,542.6	47%
<b>Long-Tail Direct insurance</b>	Professional Lines, Specialty Lines, Specialist Liability	37,966.1	22%	25,261.9	23%
<b>BGSU US Specialty</b>	BGSU Casualty, BGSU Property	6,226.6	4%	7,148.9	6%
<b>Short-Tail Reinsurance</b>	Property Treaty	21,690.4	13%	15,295.8	14%
<b>Long-Tail Reinsurance</b>	Casualty Treaty	11,103.0	7%	4,930.0	4%
<b>Other</b>	Whole Account Quota Share*	31,887.2	19%	-	0%
<b>Discontinued</b>	Engineering & CPE, Yacht, BGSU Latam	836.2	1%	6,171.9	6%
<b>Total</b>		<b>167,000.8</b>	<b>100%</b>	<b>110,351.1</b>	<b>100%</b>

\* This relates to a 4% quota share of Syndicates 2987's net written premium on the 2020 Year of Account

#### (v) Aggregate exposure management

The Syndicate is exposed to potential large claims from natural catastrophe events. The catastrophe risk tolerances are defined by the Syndicate's risk appetite framework. These are reviewed and set by the Board on an annual basis.

For example, the Syndicate, has a tolerance of 51% of its Economic Capital Assessment for major catastrophe events (as defined by Worldwide All Perils 1-in-30 Aggregate Exceedance Probability (AEP)). This equates to a maximum acceptable 1-in-30 AEP modelled loss (after all reinsurance) of £76m as at 31 December 2020 (£49.1m as at 31 December 2019). This is in addition to other tolerances set within the catastrophe risk appetite framework.

The Syndicate closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Analysis and monitoring also measures the effectiveness of the Syndicate's reinsurance programmes. Stress and scenario tests are also run, such as Lloyd's and internally developed RDS. Below are the key RDS losses to the Syndicate for all classes combined (unaudited):

Lloyd's Prescribed RDS Event £m	Estimated Industry Loss	Modelled Syndicate Loss		Modelled Syndicate Loss	
		2020(i)		2019(i)	
		Gross	Net	Gross	Net
Gulf of Mexico Windstorm	81,022	70	27	62	24
Florida Miami Windstorm	95,620	79	27	78	25
US North East Windstorm	59,124	68	16	59	25
San Francisco Earthquake	58,394	98	39	84	26
Japan Earthquake	56,689	31	31	12	12
Japan Windstorm	12,046	6	6	5	5
European Windstorm	21,429	6	6	3	3

(i): At 31 December 2020 foreign exchange rates.

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be non-modelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

#### (vi) Sensitivity to changes in net claims ratio

The Syndicate result for the financial year is sensitive to an independent 1% change in the net claims ratio by class of business as follows:

Change in reported result by category of business	2020		2019	
	£'000	%	£'000	%
Short-Tail Direct insurance	413.4	34%	383.0	40%
Long-Tail Direct insurance	363.8	30%	254.1	27%
BGSU US Specialty	55.2	4%	63.7	7%
Short-Tail Reinsurance	129.4	11%	102.7	11%
Long-Tail Reinsurance	91.6	7%	36.6	4%
Discontinued	176.9	14%	101.8	11%
<b>Total</b>	<b>1,230.3</b>	<b>100%</b>	<b>941.9</b>	<b>100%</b>

The impact on the members' balances would be the same as that on the result following a change in the net claims ratio.

#### b. Reinsurance risk

The Syndicate purchases reinsurance to manage exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Syndicate to mitigate exposure to insurance losses against the risk appetite, reduce volatility of reported results and protect capital.

The Syndicate may use the following types of reinsurance to protect itself from severe size or frequency of losses:

- (i) Facultative reinsurance may be used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.
- (ii) Risk excess of loss reinsurance may be used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Syndicate's risk appetite during the business planning exercise.
- (iii) Aggregate catastrophe excess of loss cover to protect the Syndicate against combined property claims from multiple policies resulting from catastrophe events.

Given the fundamental importance of reinsurance protection to the Syndicate's risk management, the Managing Agent has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain our ability to meet policyholder obligations. The Outwards Reinsurance Committee oversees the placement of reinsurance protections.

The Syndicate remains exposed to a number of risks relating to its reinsurance programme:

- It is possible for extremely severe catastrophe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Syndicate.
- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.
- Basis risk on reinsurance which response to something other than the Syndicate's Ultimate Net Loss.

These risks are managed through a combination of techniques and controls including risk aggregation management, capital modelling and internal actuarial review of outward reinsurance costs. The counterparty risk in relation to reinsurance purchased is managed by the Credit Committee. This is further discussed in the Credit risk section below.

#### c. Reserving risk

Reserving risk arises where the actual cost of losses for policyholder obligations incurred before 31 December 2020 may differ from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Syndicate as the reserves for unpaid losses represent the largest component of the Syndicate's liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of the Syndicate's reserving risk.

The Syndicate has a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The reserving process starts with controls over claims data which ensure complete and accurate recording of all paid and notified claims. Claims adjusters validate policy terms and conditions, adjust claims and investigate suspicious or disputed claims in accordance with the Syndicate's claims policy. Case reserves are set for notified claims using the experience of specialist claims adjusters, underwriters and external experts where necessary.

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial triangulation techniques are employed by the Syndicate's experienced actuaries to establish the IBNR reserve.

These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such as underwriting, claims and risk aggregation to ensure that they have a full understanding of the emerging claims experience across the Syndicate. Given the early stage of development for the Syndicate, Chain Ladder methods have typically not been used.

The Syndicate's reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to sign-off by the Reserving Committee, as part of the formal governance arrangements for the Syndicate. The estimate agreed by the committee is used as a basis for the Syndicate financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. This margin increases the reserves reflected in the Syndicate financial statements above the mean expectation. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off. As part of their audit engagement, reserves are subject to external actuarial review by the Syndicate's auditors.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Syndicate but typically is highest for those classes where there are longer delays in the settlement of the final claim amount. The issues contributing to this heightened uncertainty are common to all entities which write such business.

#### 3.2 Liquidity risk

This is the risk the Syndicate may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Syndicate faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

The Managing Agent monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Syndicate has in place specific credit facilities available in the event of any liquidity issues. Typically these will be used prior to the potential of making a call on Members' FAL.

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

As at 31 December 2020	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Liabilities (undiscounted values)	£'000	£'000	£'000	£'000	£'000
Claims outstanding	60,096.7	52,233.1	21,428.8	27,133.3	160,891.9
Creditors	9,782.8	-	-	-	9,782.8
Borrowings	-	-	-	-	-
<b>Total</b>	<b>69,879.5</b>	<b>52,233.1</b>	<b>21,428.8</b>	<b>27,133.3</b>	<b>170,674.7</b>

As at 31 December 2019	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Liabilities (undiscounted values)	£'000	£'000	£'000	£'000	£'000
Claims outstanding	45,589.8	34,177.3	15,282.8	13,479.4	108,529.3
Creditors	48,228.8	-	-	-	48,228.8
Borrowings	9,058.3	-	-	-	9,058.3
<b>Total</b>	<b>102,876.9</b>	<b>34,177.3</b>	<b>15,282.8</b>	<b>13,479.4</b>	<b>165,816.4</b>

#### 3.3 Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation in a timely manner. The main sources of credit risk relate to:

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by the Syndicate;
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of the Syndicate;
- Investments: through the issuer default of all or part of the value of a financial instrument; and
- Cash and cash equivalents: through the default of the banks holding the cash and cash equivalents.

The insurance and non-insurance related counterparty credit risks are managed separately by the Syndicate.

##### a. Investments credit risk

###### (i) Investment credit risk management process

The Investment Committee is responsible for the management of investment credit risk. The Investment Guidelines and Investment Policy set out clear limits and controls around the level of investment credit risk. The Syndicate has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Syndicate's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through monitoring of the aggregate investment risk limits.

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

#### (ii) Investment credit risk profile

The summary of the investment credit risk exposures for the Syndicate is set out in the tables below:

£'000	AAA	AA	A	BBB	BB or less	Not Rated	Total
<b>As at 31 December 2020</b>							
Shares and other variable yield securities	26,664.9	7,597.8	-	-	-	2,345.1	<b>36,607.8</b>
Debt securities	34,749.9	-	5,783.6	171.1	-	0.1	<b>40,704.7</b>
Overseas deposits	5,401.1	972.7	1,439.9	642.1	770.5	50.9	<b>9,277.2</b>
Cash at bank and in hand	-	-	-	7,549.3	-	-	<b>7,549.3</b>
<b>Total</b>	<b>66,815.9</b>	<b>8,570.5</b>	<b>7,223.5</b>	<b>8,362.5</b>	<b>770.5</b>	<b>2,396.1</b>	<b>94,139.0</b>

£'000	AAA	AA	A	BBB	BB or less	Not Rated	Total
<b>As at 31 December 2019</b>							
Shares and other variable yield securities	288.3	5,994.4	631.8	-	-	651.2	<b>7,565.7</b>
Debt securities	42,559.4	-	-	-	-	-	<b>42,559.4</b>
Overseas deposits	4,626.5	1,239.1	1,052.8	648.6	441.2	-	<b>8,008.2</b>
Cash at bank and in hand	-	-	-	640.7	-	5.8	<b>646.5</b>
<b>Total</b>	<b>47,474.2</b>	<b>7,233.5</b>	<b>1,684.6</b>	<b>1,289.3</b>	<b>441.2</b>	<b>657.0</b>	<b>58,779.8</b>

#### b. Insurance credit risk

##### (i) Insurance credit risk management process

The Credit Committee, chaired by the Brit Group Chief Financial Officer, is responsible for the management of credit risk arising from insurance activities.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral and have been approved for use by the Credit Committee. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current statement of financial position exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against the management risk appetite limits set by the Credit Committee. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk tolerance and/or appetite are reported to the Risk Oversight Committee and the Board on at least a quarterly basis.



## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

#### (ii) Insurance credit risk profile

The summary of the insurance credit risk exposures for the Syndicate is set out in the table below:

£'000	AAA	AA	A	BBB	BB or less	Not Rated	Total
<b>As at 31 December 2020</b>							
Reinsurers' share of claims outstanding	-	4,319.0	713.0	-	-	3,622.4	<b>8,654.4</b>
Debtors arising out of reinsurance operations	-	1,187.5	488.9	-	-	30,309.5	<b>31,985.9</b>
<b>Total</b>	-	<b>5,506.5</b>	<b>1,201.9</b>	-	-	<b>33,931.9</b>	<b>40,640.3</b>

£'000	AAA	AA	A	BBB	BB or less	Not Rated	Total
<b>As at 31 December 2019</b>							
Reinsurers' share of claims outstanding	-	5,786.7	1,685.3	-	-	4,268.5	<b>11,740.5</b>
Debtors arising out of reinsurance operations	-	112.4	0.3	-	-	13,526.5	<b>13,639.2</b>
<b>Total</b>	-	<b>5,899.1</b>	<b>1,685.6</b>	-	-	<b>17,795.0</b>	<b>25,379.7</b>

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Syndicate in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Syndicate in a timely manner).

Collateral of £42,905.9k (2019: £37,365.2k) is held in third party trust accounts or as a letter of credit ('LOC') to guarantee Syndicate 2988 against reinsurance counterparties and is available for immediate drawdown in the event of a default. As at 31 December 2020, £3,352.7k (2019: £4,268.5k) of reinsurers claims were protected by cash and cash equivalents held in third party trust accounts or by LOC's.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

£'000	Neither past due nor impaired	Past due	Impaired	Total
<b>As at 31 December 2020</b>				
Shares and other variable yield securities	36,607.8	-	-	<b>36,607.8</b>
Debt securities	40,704.7	-	-	<b>40,704.7</b>
Overseas deposits	9,277.2	-	-	<b>9,277.2</b>
Reinsurer's share of claims outstanding	8,654.4	-	-	<b>8,654.4</b>
Debtors arising out of direct insurance operations	30,172.3	-	-	<b>30,172.3</b>
Other assets	48,889.4	-	-	<b>48,889.4</b>
Cash at bank and in hand	7,549.3	-	-	<b>7,549.3</b>
<b>Total</b>	<b>181,855.1</b>	-	-	<b>181,855.1</b>

**Notes to the Accounts**  
for the year ended 31 December 2020

**3 Principal risks and uncertainties (continued)**

£'000	Neither past due nor impaired	Past due	Impaired	Total
<b>As at 31 December 2019</b>				
Shares and other variable yield securities	7,565.7	-	-	7,565.7
Debt securities	42,559.4	-	-	42,559.4
Overseas deposits	8,008.2	-	-	8,008.2
Reinsurer's share of claims outstanding	11,740.5	-	-	11,740.5
Debtors arising out of direct insurance operations	24,992.1	-	-	24,992.1
Other assets	60,879.0	-	-	60,879.0
Cash at bank and in hand	646.5	-	-	646.5
<b>Total</b>	<b>156,391.4</b>	<b>-</b>	<b>-</b>	<b>156,391.4</b>

**3.4 Market risk**

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

**a. Currency risk**

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Syndicate. The split of assets and liabilities for each of the Syndicate's main currencies is set out in the tables below:

Converted £'000	UK £	US \$	CAD \$	EUR €	Total
<b>As at 31 December 2020</b>					
Total assets	21,894.6	141,647.4	11,573.1	6,740.0	181,855.1
Total liabilities	(33,117.3)	(185,742.4)	(12,280.1)	(9,770.4)	(240,910.2)
<b>Net assets/ (liabilities) excluding the effect of currency adjustments</b>	<b>(11,222.7)</b>	<b>(44,095.0)</b>	<b>(707.0)</b>	<b>(3,030.4)</b>	<b>(59,055.1)</b>
Adjustment for foreign exchange purchases and sales	(31,022.6)	25,462.9	1,842.5	3,717.2	-
<b>Adjusted net assets/ (liabilities)</b>	<b>(42,245.3)</b>	<b>(18,632.1)</b>	<b>1,135.5</b>	<b>686.8</b>	<b>(59,055.1)</b>

Converted £'000	UK £	US \$	CAD \$	EUR €	Total
<b>As at 31 December 2019</b>					
Total assets	(3,583.6)	144,603.6	9,986.0	5,385.4	156,391.4
Total liabilities	(28,569.2)	(167,075.0)	(8,225.5)	(5,502.8)	(209,372.5)
<b>Net assets/ (liabilities) excluding the effect of currency adjustments</b>	<b>(32,152.8)</b>	<b>(22,471.4)</b>	<b>1,760.5</b>	<b>(117.4)</b>	<b>(52,981.1)</b>
Adjustment for foreign exchange purchases and sales	8,010.9	(3,541.0)	(2,349.7)	(2,120.2)	-
<b>Adjusted net assets/ (liabilities)</b>	<b>(24,141.9)</b>	<b>(26,012.4)</b>	<b>(589.2)</b>	<b>(2,237.6)</b>	<b>(52,981.1)</b>

In the above table, non-core currencies are shown in Sterling.

The non-Sterling denominated net assets of the Syndicate may lead to profit or losses (depending on the mix relative to the liabilities), should Sterling vary relative to these currencies. The Syndicate manages its exposure in each of the main currencies and the net asset position is rebalanced periodically. Where mismatches occur, these may lead to foreign exchange gains and losses reported through the income statement.

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

#### b. Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on the result of a percentage movement in the relative strength of Sterling against the value of the US dollar, Canadian dollar and Euro simultaneously, after taking into consideration the effect of hedged positions. The analysis is based on the information at 31 December of each year end:

£'000			
Impact on the result before tax and net assets		2020	2019
<b>GBP weakens</b>			
10% against other currencies		(1,681.0)	(2,883.9)
20% against other currencies		(3,362.0)	(5,767.8)
<b>GBP strengthens</b>			
10% against other currencies		1,681.0	2,883.9
20% against other currencies		3,362.0	5,767.8

#### c. Interest rate risk and price risk

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Syndicate is exposed to interest rate risk through its investment portfolio, borrowings and cash and cash equivalents. The sensitivity of the price of these financial exposures is indicated by their respective durations. This is defined as the modified duration which is the change in the price of the security subject to a 100 basis points parallel shift in interest rates. The greater the duration of a security, the greater the possible price volatility.

Insurance liabilities are measured on an undiscounted basis and therefore are not sensitive to changes in interest rates.

The banded durations of the Syndicate's financial instruments and cash and cash equivalents sensitive to interest-rate risk are shown in the table below:

As at 31 December 2020	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
Assets (fair values)	£,000	£,000	£,000	£,000	£,000	£,000
Shares and other variable yield securities and unit trusts	34,262.7	-	-	-	2,345.1	36,607.8
Debt securities	438.9	6,215.6	27,804.7	6,245.5	-	40,704.7
Overseas deposits as investments	4,502.8	3,624.2	1,003.0	147.2	-	9,277.2
Cash at bank and in hand	7,549.3	-	-	-	-	7,549.3
<b>Total</b>	<b>46,753.7</b>	<b>9,839.8</b>	<b>28,807.7</b>	<b>6,392.7</b>	<b>2,345.1</b>	<b>94,139.0</b>

As at 31 December 2019	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
Assets (fair values)	£,000	£,000	£,000	£,000	£,000	£,000
Shares and other variable yield securities and unit trusts	7,169.1	-	-	-	396.6	7,565.7
Debt securities	8,708.6	33,850.8	-	-	-	42,559.4
Overseas deposits as investments	2,192.1	4,591.8	1,113.1	111.2	-	8,008.2
Cash at bank and in hand	646.5	-	-	-	-	646.5
<b>Total</b>	<b>18,716.3</b>	<b>38,442.6</b>	<b>1,113.1</b>	<b>111.2</b>	<b>396.6</b>	<b>58,779.8</b>

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

The Syndicate takes into account the duration of its required capital, targeting an investment portfolio duration that, under a variation in interest rates, preserves the solvency ratio of the Syndicate. The duration of the investment portfolio is then set within an allowable range relative to the targeted duration.

#### d. Sensitivity to changes in investment yields

The sensitivity of the result and net assets to changes in the investment yields is set out in the table below.

£'000	Impact on result for financial year	
	2020	2019
<b>Increase</b>		
25 basis points	(438.0)	(85.4)
50 basis points	(875.9)	(170.8)
100 basis points	(1,751.8)	(341.5)
<b>Decrease</b>		
25 basis points	438.0	85.4
50 basis points	875.9	170.8
100 basis points	1,751.8	341.5

### 3.5 COVID-19

The Coronavirus (Covid-19) pandemic originated in Hubei Province in China and has since spread across the globe. Governments have taken various actions to contain the pandemic, including social distancing measures, travel restrictions and lockdowns resulting in the closure of certain businesses. This has given rise to insurance claims from various lines of business, with the most material to S2987 being event cancellations. The pandemic has also caused significant volatility in the financial markets. Although share prices recovered from significant falls following the news of the vaccine trials' success rates, interest rates remain at depressed levels given the economic outlook.

The Syndicate has managed the risks posed by the pandemic in line with the RMF. Management has focused on ensuring staff wellbeing, launching a number of initiatives following the introduction of mandatory working from home. The Managing Agent has been able to maintain a strong operational performance and continue to serve the Syndicate and its customers despite the pandemic. The underwriting and investment portfolios are actively managed to reflect market developments, and actions have been taken in both areas in 2020 to ensure it is appropriately positioned for both the pandemic and the recessionary economic conditions.

Risk Management provided reports on the impact of the pandemic on the business throughout 2020 to the Board and Risk Committee. Covid-19 will continue to be an area of focus with the key risks going forward being further financial market volatility and uncertainty over the ultimate claims arising from Covid-19. The wellbeing of staff also remains a priority.

On 15 January 2021, the UK Supreme Court upheld the judgement on the Financial Conduct Authority (FCA) business interruption (BI) insurance test case. The FCA brought the case forward in May 2020 to seek legal clarity on whether insurers were obligated to pay out on BI claims related to the COVID-19 pandemic. Brit was not party to this action, the outcome of which does not have a material impact on the Syndicate. Brit is committed to paying all valid claims and has maintained sufficient reserves to fulfil its contractual obligations.

### 3.6 The United Kingdom's exit from the EU (Brexit)

The Brexit transition period ended on 31 December 2020 with a trade deal being agreed on 24 December 2020. The trade deal came into effect on 01 January 2021 replacing the existing arrangements under the transition period. The key risk to the Syndicate was considered to be the successful completion of the Part VII transfer to LIC as the Syndicate's ability to service historical policies with EEA claims was dependent on this. The Part VII transfer was successfully completed on 30 December 2020 as originally scheduled. It should be noted that the Syndicate has been successfully writing EU business via Lloyd's Brussels since 01 January 2019.

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

#### 3.7 Emerging risks

The Syndicate undertakes a formal emerging risk review annually with the results reported to the Risk Oversight Committee and included in the Own Risk & Solvency Assessment (ORSA) report. The review is an important part of the risk identification aspect of the RMF and includes horizon scanning of the internal and external risk environment to identify potential new or developing risks. These risks can then be included in the risk register and managed appropriately as required.

The emerging risk review has previously identified risks such as the United Kingdom's exit from the EU (Brexit) and cyber risk. These risks have been managed throughout their development and are now monitored as part of the business as usual risk management process.

##### 3.7.1 Climate Change

Climate change is a key example of a developing risk identified as part of the Syndicate's emerging risk review, and the potential impact on the insurance industry is an area of focus for the market and regulators. The financial risks to insurers may include the potential for increases in the frequency and severity of weather-related natural catastrophes, for example, hurricanes and wildfires. This year has seen the most active Atlantic hurricane season on record, with 30 named storms being recorded. Of these twelve made landfall in the US and six of those were Category 3 hurricane strength or higher, both statistics either equalling or setting new records. Additionally, this year was record breaking for wildfires, with California seeing its first ever gigafire, a blaze that burns at least a million acres of land.

Climate change has been recognised as an emerging risk in the Syndicate's Own Risk and Solvency Assessment ("ORSA") since 2017 and has been an area of focus since having been identified as a high priority in the 2018 emerging risks analysis. Climate change specific tests and scenarios have been included in both syndicate 2988's ORSA and Solvency II internal model.

The Syndicate is managing the risks associated with climate change in line with the RMF and is responding to the latest regulatory guidance in this area. This will continue to be an area of management and risk committee focus, with a multi-disciplinary Climate Change Risk Working Party having been set up to consider the financial risks associated with Climate Change. The three main areas of risk identified for Brit are Natural Catastrophe, Liability and Investment risks:

- Natural catastrophe risks relating to climate change are the risk of increased frequency and severity of weather-related natural catastrophes. This could result in additional claims to Brit. This is being addressed by the continuous monitoring of scientific studies, regular reviewing of the completeness of the existing models and the application of the Brit View of Risk. Brit's exposure to natural catastrophe risks is monitored and on an ongoing basis by the Risk Management Function.
- Climate change could result in additional liability claims. For example, there is the potential for claims against firms for their contribution to climate change. To date these types of claims have not generally been successful but there remains risk going forward. Brit's exposure to these types of claims is limited through limits on gross underwriting exposure and through the purchase of reinsurance.
- Investment losses have the potential to arise from exposure to industries perceived to be contributing to climate change. The Syndicate has a diversified investment portfolio, with limits on exposure to individual issuers. The Syndicate is developing metrics to strengthen its understanding of the potential impacts of climate change on its investments.

In addition to financial risk, the Managing Agent is considering the potential implications of climate change and sustainability on its investment and underwriting strategies, how it should engage more widely on environmental and ethical issues and internal sustainability initiatives.

## Notes to the Accounts

for the year ended 31 December 2020

### 3 Principal risks and uncertainties (continued)

#### 3.8 Capital risk management

##### Capital framework at Lloyd's

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 2988 is not disclosed in these financial statements.

##### Lloyd's capital setting process

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

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

##### Provision of capital by members

The Syndicate is comprised of a number of underwriting members of Lloyd's. As such, each member is only liable for its own share of liabilities on the Syndicate. Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates.

Funds in syndicate are not applicable to Syndicate 2988, as participants' capital is held at member level. Accordingly, all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 16, are taken into account when determining the members' Lloyd's capital requirements.

## Notes to the Accounts

for the year ended 31 December 2020

### 4 Analysis of underwriting result

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

Year ended 31 December 2020	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct Insurance:						
Accident and health	2,234.9	2,265.1	(2,035.1)	(946.3)	(117.4)	(833.7)
Marine aviation and transport	10,241.7	8,617.8	(4,107.4)	(3,066.3)	(303.1)	1,141.0
Fire and other damage to property	30,865.3	30,337.8	(19,623.5)	(10,699.8)	(4,671.9)	(4,657.4)
Third party liability	29,013.2	25,811.3	(16,866.5)	(8,300.4)	(796.8)	(152.4)
Credit and suretyship	3,624.5	4,060.1	(23,591.4)	(1,458.4)	(130.3)	(21,120.0)
<b>Total Direct Insurance</b>	<b>75,979.6</b>	<b>71,092.1</b>	<b>(66,223.9)</b>	<b>(24,471.2)</b>	<b>(6,019.5)</b>	<b>(25,622.5)</b>
Reinsurance	91,021.2	66,744.1	(52,322.0)	(17,673.2)	(6,405.2)	(9,656.3)
<b>Total</b>	<b>167,000.8</b>	<b>137,836.2</b>	<b>(118,545.9)</b>	<b>(42,144.4)</b>	<b>(12,424.7)</b>	<b>(35,278.8)</b>

Year ended 31 December 2019	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct Insurance:						
Accident and health	2,028.8	1,840.6	(1,130.8)	(855.5)	-	(145.7)
Marine aviation and transport	9,182.8	13,404.3	(9,905.9)	(4,251.8)	(149.2)	(902.6)
Fire and other damage to property	33,374.8	32,779.8	(18,555.7)	(13,491.1)	(7,493.5)	(6,760.5)
Third party liability	21,629.2	18,533.9	(12,670.5)	(6,356.5)	83.3	(409.8)
Credit and suretyship	3,263.9	2,421.2	(1,083.8)	(659.6)	7.3	685.1
<b>Total Direct Insurance</b>	<b>69,479.5</b>	<b>68,979.8</b>	<b>(43,346.7)</b>	<b>(25,614.5)</b>	<b>(7,552.1)</b>	<b>(7,533.5)</b>
Reinsurance	40,871.6	39,866.5	(26,988.9)	(12,106.9)	(3,987.4)	(3,216.7)
<b>Total</b>	<b>110,351.1</b>	<b>108,846.3</b>	<b>(70,335.6)</b>	<b>(37,721.4)</b>	<b>(11,539.5)</b>	<b>(10,750.2)</b>

Commissions on direct insurance gross premiums written during 2020 were £18,257.7k (2019: £17,612.8k).

On 25 November 2020 the High Court sanctioned the transfer to Lloyd's Insurance Company S.A. (LIC) of syndicates' European liabilities in accordance with Part VII of the Financial Services and Markets Act 2000. The scheme took effect on 30 December 2020, whereupon all relevant policies (and related liabilities) underwritten by the Syndicate for years of account between 2017 (syndicate commenced) and April 2019 (or October 2020 in the case of German reinsurance) were transferred to LIC. On the same date, a 100% Quota Share Reinsurance Agreement was entered into whereby LIC reinsured all risks on the same policies back to the relevant open years of account of the syndicates that wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

## Notes to the Accounts

for the year ended 31 December 2020

### 4 Analysis of Underwriting Result (continued)

The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the income statement or statement of financial position. 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 Reinsurance Accepted class of business, reflecting the new contractual arrangement with LIC. The total cash consideration paid and subsequently received equated to US\$1.7m.

All premiums were concluded in the UK. The geographical analysis of premiums by the location of the underlying risk is as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
United States	53,298.6	56,505.8
United Kingdom	9,682.3	6,093.9
Europe (excluding UK)	2,794.1	1,582.0
Other (including worldwide)	101,225.8	46,169.4
<b>Total</b>	<b>167,000.8</b>	<b>110,351.1</b>

### 5 Net operating expenses

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	29,757.2	25,273.3
Change in deferred acquisition costs	(2,940.7)	(170.3)
Administrative expenses	15,327.9	12,618.4
<b>Total</b>	<b>42,144.4</b>	<b>37,721.4</b>

Members' standard personal expenses of £2,735.8k (2019: £1,989.9k) are included within administrative expenses.

The auditors' remuneration and audit services charged to the Syndicate within the fixed fee charged by the Managing Agent and the auditors' remuneration are as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Audit of the Syndicate annual accounts	82.6	82.6
Other services pursuant to Regulations and Lloyd's Byelaws	52.3	52.3
<b>Total</b>	<b>134.9</b>	<b>134.9</b>

### 6 Staff numbers and costs

All staff in the UK are employed by the Brit Group service company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.



## Notes to the Accounts

for the year ended 31 December 2020

### 7 Remuneration of the Directors of Brit Syndicates Limited and Active Underwriter

No remuneration of the Directors of Brit Syndicates Limited has been charged to the Syndicate for the 2020 or 2019 calendar year.

The active underwriter received the following remuneration in respect of the Syndicate. This remuneration was paid to the active underwriter by the managing agent from the fixed fee it charged to the Syndicate.

	2020 £'000	2019 £'000
Aggregate remuneration	542.0	469.8
<b>Total</b>	<b>542.0</b>	<b>469.8</b>

No advances, pension contributions or credit were granted by the Managing Agent to any of its directors during the year.

### 8 Investment return

	2020 £'000	2019 £'000
Income from investments	558.4	1,125.3
Gains on investments	513.8	337.3
Losses on investments	(93.4)	(0.5)
Investment management charges	(50.4)	(6.5)
	<b>928.4</b>	<b>1,455.6</b>
Allocated investment return transferred to the general business technical account	(928.4)	(1,455.6)
Net investment return included in the non-technical account	-	-
<b>Total investment return</b>	<b>928.4</b>	<b>1,455.6</b>

Average amount of funds held as cash and cash equivalents during the year:	2020 in currency	2019 in currency
Sterling	3,487.1	1,198.0
US dollars	18,669.1	10,062.5
Canadian dollars	6,627.2	11,027.7
Euros	1,690.5	758.8
<b>Combined in Sterling</b>	<b>22,463.3</b>	<b>15,856.1</b>

### Gross calendar year interest yield on cash and cash equivalents

Sterling	0.05%	0.61%
US dollars	0.63%	2.24%
Canadian dollars	0.42%	1.72%
Euros	0.00%	0.00%
<b>Combined in Sterling</b>	<b>0.49%</b>	<b>1.87%</b>

Overseas deposits have been excluded from the analysis as these are actively management by Lloyd's on behalf of the Syndicate.

## Notes to the Accounts

for the year ended 31 December 2020

### 9 Claims development tables

The following table illustrates the development of the estimates of earned ultimate cumulative claims incurred, including claims notified and IBNR. Non-Sterling cumulative claims estimates, and cumulative payments are translated into Sterling at the period end rate as at 31 December 2020.

#### Estimate of cumulative gross incurred claims

<b>£'000</b>				
<b>Underwriting year</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
At end of underwriting year	59,806.7	43,989.4	27,252.1	64,520.7
One year later	90,438.2	79,041.2	72,603.1	
Two years later	95,124.1	82,680.4		
Three years later	94,639.7			
<b>Current estimate of cumulative claims incurred</b>	<b>94,639.7</b>	<b>82,680.4</b>	<b>72,603.1</b>	<b>64,520.7</b>
Cumulative payments	(73,545.2)	(48,931.1)	(22,401.4)	(8,674.3)
<b>Gross outstanding claims provision as at 31 December 2020</b>	<b>21,094.5</b>	<b>33,749.3</b>	<b>50,201.7</b>	<b>55,846.4</b>

#### Estimate of cumulative net incurred claims

<b>£'000</b>				
<b>Underwriting year</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
At end of underwriting year	37,475.6	43,448.0	26,959.5	63,872.9
One year later	66,676.4	78,064.9	71,861.9	
Two years later	69,177.5	81,557.4		
Three years later	67,701.1			
<b>Current estimate of cumulative claims incurred</b>	<b>67,701.1</b>	<b>81,557.4</b>	<b>71,861.9</b>	<b>63,872.9</b>
Cumulative payments	(53,667.5)	(48,918.0)	(22,389.6)	(7,780.7)
<b>Net Outstanding claims provision as at 31 December 2020</b>	<b>14,033.6</b>	<b>32,639.4</b>	<b>49,472.3</b>	<b>56,092.2</b>

### 10 Financial investments

	<b>Market Value</b>		<b>Cost</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Shares and other variable yield securities and units in unit trusts	36,607.8	7,565.7	36,509.0	7,565.2
Debt securities	40,704.7	42,559.4	40,652.1	42,471.8
<b>Total</b>	<b>77,312.5</b>	<b>50,125.1</b>	<b>77,161.1</b>	<b>50,037.0</b>

Shares and other variable yield securities and units in unit trusts comprise of short-term deposits that are highly liquid cash equivalents, all of which are not listed.

All financial investments have been designated as held at fair value through profit or loss.

## Notes to the Accounts

for the year ended 31 December 2020

### 10 Financial investments (continued)

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

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Year ended 31 December 2020</b>				
Shares and other variable yield securities	8,051.9	26,210.8	2,345.1	<b>36,607.8</b>
Debt Securities	34,456.9	6,247.8	-	<b>40,704.7</b>
<b>Total</b>	<b>42,508.8</b>	<b>32,458.6</b>	<b>2,345.1</b>	<b>77,312.5</b>

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Year ended 31 December 2019</b>				
Shares and other variable yield securities	6,537.3	631.8	396.6	<b>7,565.7</b>
Debt securities	1,104.9	41,454.5	-	<b>42,559.4</b>
<b>Total</b>	<b>7,642.2</b>	<b>42,086.3</b>	<b>396.6</b>	<b>50,125.1</b>

#### a. Basis for determining the fair value hierarchy of financial instruments

The Syndicate has classified the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making those measurements. The fair value hierarchy comprises the following levels:

- (i) Level one – quoted prices (unadjusted) in active markets for identical assets
- (ii) Level two – inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (iii) Level three – inputs for the assets that are not based on observable market data (unobservable inputs).

Assets are categorised as level one where fair values determined in whole directly by reference to an active market relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis, i.e. the market is still active.

For assets and liabilities that are recognised at fair value on a recurring basis, the Syndicate determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values for level two and level three assets include:

- Values provided at the request of the Syndicate by pricing services and which are not publicly available or values provided by external parties which are readily available but relate to assets for which the market is not always active; and
- Assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

For all assets not quoted in an active market or for which there is no active market, the availability of financial data can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on the models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised is higher for instruments classified in level three and the classification between level two and level three depends highly on the proportion of assumptions used, supported by market transactions and observable data.

## Notes to the Accounts

for the year ended 31 December 2020

### 10 Financial investments (continued)

#### b. Valuation techniques

##### Level one

These represent assets traded in an active market whose quoted price is readily and regularly available and those prices represent actual and regular transactions on an arm's length basis.

##### Level two

Inputs include directly or indirectly observable inputs (other than level one inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level two securities contain certain investments in US and non-US government agency securities, US and non-US corporate debt securities and specialised investment funds. US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. Market observable inputs for these investments may include broker-dealer quotes, reported trades, issuer spreads and available bids. Non-US government agency securities are priced with over-the-counter (OTC) quotes or broker-dealer quotes. Other market observable inputs include benchmark yields and reported trades. Issuer spreads are also available for these types of investments.

US and non-US corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions (OTC prices/broker-dealer quotes) so they are derived indirectly using inputs that can be corroborated by observable market data. These also include certain private placement corporate debt securities which are valued with the use of discounted cash flow models.

Level two specialised investment funds contain credit opportunities funds that are valued based on the underlying assets in the fund on a security by security basis. A number of direct and indirect inputs such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated timing of principal repayments are considered during their valuation.

##### Level three

Level 3 investments comprise only of a Syndicate loan to the central fund. Lloyd's introduced Syndicate loans to the Central Fund with effect from the 2019 year of account and plan to continue to do so in subsequent years, subject to PRA approval each year. During 2020, two further tranches were collected from the Syndicate on the 2020 year of account. The proceeds from these loans are used to strengthen Lloyd's central resources and to inject capital into Lloyd's Insurance Company SA (LIC). Loans will not be repaid before 5 years have elapsed. Interest thereon will be determined by reference to the risk-free yield plus a credit spread and will normally be paid annually on an anniversary of the loan. Interest on the 2019 year of account loan was received. These investments have been classified as an equity share for which the fair value cannot be determined using direct or indirect observable inputs, therefore this has been classified as Level 3.

## Notes to the Accounts

for the year ended 31 December 2020

### 11 Provision for unearned premium

	Gross £'000	Reinsurers' share £'000	Net £'000
<b>Balance at 1 January 2020</b>	43,556.1	(1,664.7)	<b>41,891.4</b>
Premiums written in the year	167,000.8	(15,589.5)	<b>151,411.3</b>
Premiums earned in the year	(137,836.2)	14,804.8	<b>(123,031.4)</b>
Effect of movement in exchange rates	(2,485.2)	101.1	<b>(2,384.1)</b>
<b>Balance at 31 December 2020</b>	<b>70,235.5</b>	<b>(2,348.3)</b>	<b>67,887.2</b>

	Gross £'000	Reinsurers' share £'000	Net £'000
<b>Balance at 1 January 2019</b>	43,503.9	(909.5)	<b>42,594.4</b>
Premiums written in the year	110,351.1	(15,471.6)	<b>94,879.5</b>
Premiums earned in the year	(108,846.3)	14,655.1	<b>(94,191.2)</b>
Effect of movement in exchange rates	(1,452.6)	61.3	<b>(1,391.3)</b>
<b>Balance at 31 December 2019</b>	<b>43,556.1</b>	<b>(1,664.7)</b>	<b>41,891.4</b>

### 12 Claims outstanding

	Gross £'000	Reinsurers' share £'000	Net £'000
<b>Balance at 1 January 2020</b>	108,529.3	(11,740.5)	<b>96,788.8</b>
Claims incurred in current underwriting year	118,545.9	(2,380.1)	<b>116,165.8</b>
Claims paid in the year	(60,940.7)	5,235.6	<b>(55,705.1)</b>
Effect of movement in exchange rates	(5,242.6)	230.6	<b>(5,012.0)</b>
<b>Balance at 31 December 2020</b>	<b>160,891.9</b>	<b>(8,654.4)</b>	<b>152,237.5</b>

	Gross £'000	Reinsurers' share £'000	Net £'000
<b>Balance at 1 January 2019</b>	93,956.6	(19,244.1)	<b>74,712.5</b>
Claims incurred in current underwriting year	70,335.6	(3,115.6)	<b>67,220.0</b>
Claims paid in the year	(52,231.7)	10,129.5	<b>(42,102.2)</b>
Effect of movement in exchange rates	(3,531.2)	489.7	<b>(3,041.5)</b>
<b>Balance at 31 December 2019</b>	<b>108,529.3</b>	<b>(11,740.5)</b>	<b>96,788.8</b>

**Notes to the Accounts**  
for the year ended 31 December 2020

**13 Cash and cash equivalents**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	7,549.3	646.5
Short-term deposits	34,262.7	7,169.0
<b>Total</b>	<b>41,812.0</b>	<b>7,815.5</b>

Cash and cash equivalents comprise of cash at bank and in hand and investment instruments with less than 90 days left to maturity when purchased. Short term deposits are included within financial investments in Note 10.

**14 Other assets**

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

**15 Deferred acquisition costs**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 January 2020	10,916.5	11,078.0
Change in deferred acquisition costs	2,940.7	170.3
Effect of movement in exchange rates	(383.1)	(331.8)
<b>Balance at 31 December 2020</b>	<b>13,474.1</b>	<b>10,916.5</b>

**16 Creditors arising out of direct insurance operations**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Due to intermediaries within one year	898.1	193.9
<b>Total</b>	<b>898.1</b>	<b>193.9</b>

**17 Amount due to credit institutions**

The Syndicate has a US\$30,000k, or £21,947k, at the December 2020 balance sheet rate, (2019: US\$50,000k / £37,743k) revolving credit facility which expires on 30<sup>th</sup> September 2021. The Syndicate has currently drawn down \$nil / £nil (2019: US\$12,000k / £9,058.3k) of the facility.

The facility incurs an interest rate of LIBOR + 1.5% for the drawn down amount, and a 0.525% non-utilisation fee for the undrawn amount.

**18 Other debtors and creditors**

Included within other debtors and creditors are investment receivables of £nil (2019: £33,976.9k) and investment payables of £nil (2019: £33,846.7k). These are due to certain investments maturing at the date of the Statement of Financial Position however remained unsettled. Included within other debtors is an amount due from other Brit entities amounting to £860.9k.

## Notes to the Accounts

for the year ended 31 December 2020

### 19 Related parties

#### a. Brit Syndicates Limited (BSL or the Managing Agent)

The Managing Agent is a wholly-owned subsidiary of Brit Insurance Holdings Limited, which in turn is a subsidiary of Brit Limited. During the year, the Syndicate paid £10,426.5k (2019: £8,281.0k) to BSL in respect of management fees and a further £1,489.5k (2019: £980.0k) in managing agency fees. As at 31 December 2020, there were amounts outstanding of £2,979.0k (2019: £7,690.6k). The Syndicate also participates on various Lloyd's consortia managed by BSL. During the year, the Syndicate incurred consortia management fees of £28.6k (2019: £369.8k) and no technical advisor fees or profit commission to BSL in respect of the consortia agreements (2019: £nil).

#### b. Brit Insurance Services USA, Inc.

During the year, the Syndicate paid commissions to Brit Insurance Services USA, Inc., a service company within the Brit Limited group. The amounts in the Income Statement relating to trading with Brit Insurance Services USA, Inc. for the year included commission for introducing insurance business of £614.0k (2019: £927.5k). As at 31 December 2020, no amounts of commission were outstanding (2019: £nil). As at 31 December 2020, Brit Insurance Services USA, Inc. owed £3,041.4k (2019: £4,590.9k) of premiums to the Syndicate.

#### c. BGS Services (Bermuda) Limited

During the year, the Syndicate paid commissions to BGS Services (Bermuda) Limited, a service company within the Brit Limited group. The amounts on the Income Statement relating to trading with BGS Services (Bermuda) Limited included commission for introducing insurance business of £nil (2019: £44.6k). As at 31 December 2020, no amounts of commission were outstanding (2019: £nil). As at 31 December 2020, BGS Services (Bermuda) Limited owed £nil (2019: £nil) of premiums to the Syndicate.

#### d. Syndicate 2987

BSL also manages Syndicate 2987, a wholly-aligned syndicate of the Brit Limited group. During the year the Syndicate paid commissions to Syndicate 2987, in relation to inter-syndicate quota share agreements. The amounts on the income statement relating to trading with Syndicate 2987 included commissions for transferring insurance risk of £3,861.6k (2019: £nil). As at the 31 December 2020 no amounts of commission were outstanding (2019: £nil). As at 31 December 2020, Syndicate 2987 owed £23,523.0k (2019: £nil) of premiums to the Syndicate.

#### e. Directors of Brit Syndicates Limited

For information relating to the remuneration of the directors of Brit Syndicates Limited, refer to note 7.

There are no related party director disclosures to note for the year ended 31 December 2020.

#### f. Ambridge Partners LLC

Ambridge Partners LLC is a managing general underwriter of transactional insurance products, writing business on behalf of a range of insurers including entities within the Brit Limited group.

Trading with Ambridge Partners LLC is undertaken on an arm's-length basis and is settled in cash. The amounts in the Income Statement relating to trading with Ambridge Partners LLC for the year included commission for introducing insurance business of £692.4k (2019: £795.1k). As at 31 December 2020, no amounts of commission were outstanding (2019: nil). As at 31 December 2020, Ambridge Partners LLC owed £1,282.2k (2019: £2,009.6k) of premiums to the Syndicate.

The Syndicate also participates on various Lloyd's consortia managed by Ambridge. During the year, the Syndicate incurred consortia management fees of £186.1k (2019: £306.5k) and no technical advisor fees or profit commission to BSL in respect of the consortia agreements (2019: £nil).

## Notes to the Accounts

for the year ended 31 December 2020

### 19 Related parties (continued)

#### g. Sutton Specialty Risk Inc.

On 2 January 2020, Brit Insurance Holdings, acquired 49% of the issued shares of Sutton Specialty Risk Inc. (Sutton) for a total purchase consideration of CAD\$17.2m and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a Canadian MGU, specialising in Accident and Health business.

Trading with Sutton is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Sutton for the period from 2 January 2020 to 31 December 2020 included commission for introducing insurance business of £176.8k (2019: £150.5k). As at 31 December 2020, Sutton owed £219.8k (2019: £1,138.2k) of premiums to the Syndicate.

#### h. Camargue Underwriting Managers Proprietary Limited

On 30 August 2016, the Group acquired 50% of the share capital of the South African company, Camargue Underwriting Managers Proprietary Limited (Camargue) and also entered into a call and a put option to purchase the remaining 50% in 2021. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit.

Trading with Camargue is undertaken on an arm's-length basis and is settled in cash.

The amounts in the income statement relating to trading with Camargue for the year ended 31 December 2020 included commission for introducing insurance business of £35.7k (2019: £2.9k). As at 31 December 2020, Camargue owed £69.2k (2019: £83.3k) of premiums to the Syndicate.

#### i. Brit UW Limited

Brit UW Limited, a subsidiary of the Group provided £83,158.8k of capacity in respect of the 2020 year of account of the Syndicate. Brit UW Limited provided no capacity on the Syndicates' 2019 year of account. Brit UW Limited initially provided £18,183.1k of capacity on the syndicates 2018 year of account. Refer to note 20 for further information on how capacity is funded by the member.

#### k. Key Management personnel compensation

For the purposes of FRS 102, the active underwriter is deemed to be the key management personnel. Compensation, including share-based payments, incurred by the key management personnel in 2020 was £541.0k (2019: £501.0k).

### 20 Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on the UK Prudential Regulation Authority (PRA) requirements and resource criteria. FAL has regard to a number of factors including but not limited to the nature and amount of risk to be underwritten by the members and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the control of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.



## **Notes to the Accounts**

for the year ended 31 December 2020

### **21 Subsequent events**

Subsequent to the year-end, on 4 January 2021, under the 100% Quota Share Reinsurance Agreement between the Syndicate and LIC, the Group was required to set up advanced funds in segregated Part VII settlement accounts managed by the Managing Agent on behalf of LIC from which claims with respect to transferred liabilities will be settled. As this transaction took place after the end of the reporting period, there is no impact on the Syndicate statement of financial position or income statement as at 31 December 2020.

On 15 January 2021, the UK Supreme Court upheld the judgement on the Financial Conduct Authority (FCA) business interruption (BI) insurance test case. The FCA brought the case forward in May 2020 to seek legal clarity on whether insurers were obligated to pay out on BI claims related to the COVID-19 pandemic. Brit was not party to this action, the outcome of which does not have a material impact on the Syndicate. Brit is committed to paying all valid claims and has maintained sufficient reserves to fulfil its contractual obligations.

### **22 Ultimate holding company**

The Managing Agent is a wholly-owned subsidiary of Brit Insurance Holdings Limited, a company registered in England and Wales. The intermediate holding company, in which the Managing Agent's result is consolidated, is Brit Limited, a company registered in England and Wales. Copies of Brit Limited's consolidated accounts can be obtained by writing to The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB, or from the website [www.britinsurance.com](http://www.britinsurance.com).

The ultimate parent undertaking is Fairfax Financial Holdings Limited (Fairfax), a company registered in Toronto. Copies of Fairfax consolidated accounts can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website [www.fairfax.ca](http://www.fairfax.ca).

## **Directors of the Managing Agent**

### **Executive**

Mark Andrew Allan  
Matthew Dominic Wilson  
Christiern Robert James Dart  
Michael David Jeremy Gould (resigned on 13<sup>th</sup> March 2020)

### **Non-Executive**

Simon Philip Guy Lee  
Anthony John Medniuk  
Caroline Frances Ramsay  
Andrea Caroline Natascha Welsch  
Pinar Yetgin

### **Secretary**

Tim James Harmer

### **Active Underwriter**

Simon Bird

### **Registered Office**

The Leadenhall Building  
122 Leadenhall Street  
London  
EC3V 4AB

### **Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London, Riverside  
London  
SE1 2RT

**Brit Syndicates Limited**

The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB, UK

[www.britinsurance.com](http://www.britinsurance.com)



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