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Talbot Underwriting Ltd Syndicate 2019

Annual Report and Accounts

31 December 2020

Annual Report and Accounts 2020

Contents

Chief Executive Officer's report

2020 has been a year of challenge and change as we all had to adapt to living and working in a COVID-19 environment. I would like to thank all my colleagues at Talbot and AIG for their hard work, commitment and resilience during this exceptional year and for achieving the successful launch of syndicate 2019.

Result for the year

Premium written for the first year of the syndicate was $724.7m which was slightly ahead of expectations. Claims incurred of $302.7m reflected the high level of catastrophe activity in the second half of the year which outweighed favourable attritional experience which drove a loss of $67.1m. The combined ratio for year was 118.2% driven by the adverse catastrophe experience.

Future developments

The syndicate capacity for the 2021 year of account is £500.35m (2020: £450m). In the underlying portfolio we expect to see proactive underwriting actions leading to improved performance in 2021 driven by increased geographical diversification, non-renewal of underperforming segments and appropriate pricing.

Chris Rash

Chief Executive Officer, Talbot Underwriting Ltd

19 March 2021

Report of the directors of the Managing Agent

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

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

Principal activity

Syndicate 2019 was approved by Lloyd's in May 2020. The principal activity of the syndicate is to underwrite a proportional quota share reinsurance contract covering high net worth (HNW) personal lines insurance business underwritten by American International Group Inc (AIG) companies as part of its Private Clients Group (PCG): the PCG HNW portfolio. The quota share contract provides coverage for PCG HNW policies incepting from 1 January 2020.

Overview

The syndicate result for the year was a loss of $67.1m (2019: N/A). Gross premiums written during the year were $724.7m (2019: N/A).

Results for the financial year

	2020 $m
Gross premiums written	724.7
Net premiums written	724.7
Net earned premiums	370.1
Net claims incurred	(302.7)
Net acquisition costs	(124.3)
Underwriting result before administrative expenses	(56.9)
Administrative expenses	(10.4)
Investment return	0.6
Foreign exchange losses	(0.4)
Loss for the financial year	(67.1)

Key performance indicators

	2020
Claims ratio (%)	81.8%
Expense ratio (%)	36.4%
Combined ratio (%)	118.2%

The claims ratio is the ratio of claims incurred to earned premiums. The expense ratio is the ratio of acquisition costs plus administrative expenses, to earned premiums. (Note that Syndicate 2019 purchases no reinsurance and as such gross premiums and claims equal net premiums and claims respectively, likewise gross ratios equate to net ratios.)

Traditionally, the performance of a syndicate has been assessed by measuring, as a percentage of syndicate capacity, the 36 month result on a funded accounting basis for a “closed” underwriting year of account. There are no closed years of account for the syndicate at 31 December 2020. The forecast for the 2020 open year of account is shown below.

Year of account	2020 open
Capacity (£m)	£450
Open year forecast/Closed year result (£m)	(32.3)
Return on capacity %	-7.2%

Syndicate capacity is a measure used by Lloyd’s and refers to a syndicate’s capacity to write premiums net of acquisition costs. Syndicate capacity is agreed by Lloyd’s in sterling based on prescribed rates of exchange.

Review of the business

Underwriting

The syndicate underwrites a 49.1% quota share of PCG’s HNW portfolio. The portfolio is protected by a reinsurance programme comprising excess of loss, quota share and facultative covers which applies before the cession into the syndicate. The syndicate’s gross premiums and claims are therefore received after application of those reinsurance protections.

The syndicate does not purchase any reinsurance itself and as such its gross premiums and claims are equal to its net premiums and claims respectively. Any references to net figures within this report are therefore equal to the gross.

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

	2020 $m
Homeowners	467.3
Auto	113.1
Collection Fine Art	29.1
Collection General Specie	59.4
Yacht	9.2
Excess Liability	44.8
Workers Comp	1.8
Total gross premiums written	724.7

Report of the directors of the Managing Agent (continued)

Net claims ratio

The net claims ratio for the year was 81.8%, of which catastrophe claims accounted for 36.7%. Net claims incurred as a percentage of net earned premiums were as follows:-

	2020
Current year notified claims - catastrophe (%)	36.7%
Current year claims - attritional (%)	45.1%
	81.8%

The attritional losses to date reflect the successful optimisation of the PCG HNW portfolio.

The second half of 2020 saw a high frequency of natural catastrophe losses, with significant Hurricane and Tropical Storm activity and major wildfire activity. Notably, California experienced some of the largest wildfires in its history.

The PCG strategy for 2021 is to diversify the portfolio and reduce exposure in areas prone to higher frequency of natural catastrophe events. Actions include restricting new business growth in California and targeting new business in "growth states" such as the Midwest. These actions, in combination with the improving rating environment in California for Homeowners, will support the ambition to further improve the quality of the portfolio and increase its robustness to future catastrophe events.

Net operating expenses

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

	2020 $m
Acquisition costs	243.5
Acquisition costs – change in deferred acquisition costs	(119.2)
Net acquisition costs	124.3
Administrative expenses	
– Direct syndicate expenses	1.8
– Managing agency fee	3.6
– Lloyd's subscription and Central Fund charges	5.0
Administrative expenses	10.4
Net operating expenses	134.7
As % of net earned premiums	
Net acquisition costs (%)	33.6%
Administrative expenses (%)	2.8%
Net operating expenses (%)	36.4%

Net acquisition costs are in accordance with the Quota Share contract at 33.6%. Administrative costs consist primarily of Lloyd's costs and managing agency fees.

COVID-19

To date the syndicate does not expect COVID-19 to have a material financial impact on its business, capital or liquidity. The Auto class of business's claims experience has been favourable, which has led to some premium refunds being made to customers. The syndicate has not been materially affected by COVID-19 insurance claims. Notwithstanding these points, the situation is ongoing and uncertain.

Talbot implemented its business continuity plans and has been fully operational via remote working since March 2020.

Report of the directors of the Managing Agent (continued)

Foreign exchange

All premiums, claims and acquisition costs are in US dollars, while a portion of administrative expenses are paid in GBP. During the year, the US dollar weakened against sterling, with the closing exchange rates moving from £0.75/$1 to £0.73/$1 respectively. The loss on foreign exchange, primarily reflecting the weakening of the US dollar against sterling, was $0.4m (2019: N/A).

Investment return

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

	$m
2020	
Average syndicate funds available for investment	90.9
Investment return for the year	0.6
Calendar year investment return (%)	0.7%

Syndicate funds are actively managed by AIG Asset Management (Europe) Limited and the returns compared to benchmarks agreed as part of the investment guidelines. Average funds available for investment and the return for the year reflect the immaturity of the syndicate with regard to generating funds for investment.

Financial position

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

Financial investments

Financial investments consist primarily of debt securities issued by governments, government agencies, or high grade corporate entities. Investment guidelines do not allow the holding of equities. All investments are traded within liquid markets except for private debt funds. The fair value of investments carried in the balance sheet is determined by market prices or by industry standard valuation models except for private debt funds. At 31 December 2020, the fair value of investments was $357.1m (2019: N/A) and the portfolio composition is shown in note 9 to the accounts.

Cash flow

There was an increase of $83.3m (2019: N/A) in cash and cash equivalents during the year.

Technical provisions

Technical provisions include a provision for outstanding claims of $278.4m (2019: N/A) and a provision for unearned premiums of $354.7m (2019: N/A).

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

Report of the directors of the Managing Agent (continued)

Climate risks

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

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Future developments

The syndicate has renewed the quota share contract with AIG from 1 January 2021.

The syndicate capacity for the 2021 year of account is £500.35m (2020: £450m). For further detail on "syndicate capacity" see page 3.

The syndicate balance sheet shows net liabilities of $67.1m (2019: N/A). However, at this point in time a cash call on the members is not proposed. The liquidity requirements of the syndicate will continue to be monitored which may give rise to cash calls in the future. The syndicate has a $100m loan facility to cover funding requirements.

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

Corporate Governance

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

The non-executive directors challenge the executive directors constructively on their recommendations and running of the business, review the performance of management in meeting agreed objectives and targets, monitor the reporting of performance, satisfy themselves on the integrity of financial information and satisfy themselves that financial controls and systems of risk management are adequate. Senior members of management from the AIG Private Client Group ('PCG', which underwrites the underlying business of the syndicate's sole quota share agreement) attend Talbot board and board committee meetings to allow the board to challenge management at the Talbot and PCG level. Where Talbot relies on processes which are carried out at PCG, the board challenges PCG management and ensures that Talbot management is comfortable with the information provided by PCG.

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

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

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

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

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

Report of the directors of the Managing Agent (continued)

The Risk and Compliance Committee is made up of six non-executive directors and is attended by various executive directors and members of management from both Talbot and PCG. The purpose of the Risk and Compliance Committee is to oversee the risk management process, to review issues of risk policy and to drive the risk culture at Talbot. The Risk and Compliance Committee monitors the conduct and co-ordination of risk management activities across the company and the syndicate on behalf of the Talbot Board, including the identification of key business risks and material changes to the business environment.

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

Risk management

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

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

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

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

Wates principles statement

- **Purpose and Leadership**: As per the Corporate Governance section within the Directors report, the Board sets out a clear long term strategy and purpose for the Company and regularly monitors progress towards the Company’s strategic goals. The Board considers the impact of this strategy on each key stakeholder group, as outlined in detail in the Section 172 statement of the Managing Agent’s Annual Report.

- **Board Composition:** As per the Corporate Governance section, the Board consists of both executive and non-executive directors, with a majority of non-executive directors. The duties of the Board are executed partially through Board Committees, as outlined in the Corporate Governance Report. The INEDs chair the Board Committees, other than the Remuneration Committee which is chaired by a NED, so that they are able to challenge and influence a broad range of areas across the Company. The current INEDs possess a broad range of experience including finance, underwriting, distribution and law.

  The Board maintains a skills, experience and expertise matrix which is updated annually, with new skills added where they are relevant to the realisation of the company strategy and the interests of stakeholders. Directors update their skills, knowledge and familiarity with the Company by meeting regularly with senior management, through external training courses and specific Board-training sessions which are coordinated by the Chair and Company Secretary. There is an induction process for all new independent directors, which is tailored for specific individuals. The Board conducts an effectiveness review on an annual basis, with an independent review conducted in Q4 2020. The findings will be reported in Q1 2021.

Report of the directors of the Managing Agent (continued)

- **Director Responsibilities:** A statement of directors' responsibilities with regard to financial statements under company law is found in the Directors' Report. In addition to these responsibilities, the Board maintains a Terms of Reference document outlining the duties of the Board, a fundamental duty being to set the strategic aims and risk appetite of the Company. The Board delegates authority for day-to-day management of the Company to the Chief Executive Officer (CEO), who chairs the Executive Committee which meets formally on a monthly basis and informally on a weekly basis and is responsible for supporting the CEO in execution of the Board-set strategy. The Executive Committee membership consists of leaders of each business area.
- **Opportunity and Risk:** A statement of principal risks and uncertainties is provided in the Strategic Report. As outlined in the Corporate Governance section within the Directors report, the Risk and Compliance Committee monitors the Company risk management framework and receives a quarterly report on management risks and emerging risks. In order to promote the long term sustainability of the company, strategic opportunities are reviewed by the Board and specific objectives set by the Board.
- **Remuneration:** As per the Corporate Governance section, the Remuneration Committee ensures that remuneration policies are consistent with sound risk management and do not expose the company to excessive risk. The Remuneration Committee is responsible for ensuring that the remuneration policy of the Company complies with Solvency II and other applicable regulations.
- **Stakeholder Relationships and Engagement**: As per the Section 172 Statement of the Managing Agent's Annual Report, Talbot has identified a range of key stakeholders, each of whom is integral to the long term objectives of the Company. The Section 172 Statement of the Managing Agent outlines how the Board engages with each of these stakeholders and the outcomes of this engagement contribute to the delivery of the long term objectives of the Company.

Professional indemnity insurance

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

Report of the directors of the Managing Agent (continued)

Directors

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

CE Barton	(Appointed 21 October 2020)
DJ Batchelor	(Chair, non-executive, appointed Chair7 January 2021)
TA Bolt	(Non-executive)
NMA Burch	(Non-executive)
MEA Carpenter	(Non-executive)
JL Hancock	(Non-executive, appointed 7 December 2020)
BJ Hurst-Bannister	(Non-executive, resigned as Acting Chairman 7 January 2021)
DE Morris	(Acting Chief Executive, resigned 8 February 2021)
CJR Rash	(Chief Executive, appointed 8 February 2021)
JG Ross	
M Scales	(Non-executive)
JE Skinner	(Resigned 17 July 2020)
ND Wachman	(Resigned 16 September 2020)

Active Underwriter

Ian Peterson is the active underwriter of the syndicate.

Company Secretary

M-C Gallagher

Statutory Information

Disclosure of information to auditors

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

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

Annual General Meeting

Corporate Members will be requested to waive the requirement to hold an AGM. Should Corporate Members not agree to waive this requirement, an AGM will be held between the dates of 4 April 2021 and 4 July 2021.

Report of the directors of the Managing Agent (continued)

Statement of Managing Agent's responsibilities

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

The directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the syndicate will continue to write business unless it is inappropriate to presume that the syndicate will do so.

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

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

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

CE Barton
Finance Director
19 March 2021

Independent auditors’ report to the members of Syndicate 2019

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 2019’s syndicate annual accounts:

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

Independent auditors' report to the members of Syndicate 2019 (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.

Independent auditors' report to the members of Syndicate 2019 (continued)

We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income. Audit procedures performed included:

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

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

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

Profit and loss account

For the year ended 31 December 2020

	Note	2020 $m
Gross premiums written	6	724.7
Outwards reinsurance premiums		-
Net premiums written		724.7
Change in gross provision for unearned premiums		(354.6)
Reinsurers' share of change in the provision for unearned premium		-
Change in the net provision for unearned premiums		(354.6)
Earned premiums, net of reinsurance		370.1
Allocated investment return transferred from the non-technical account		0.6
Gross claims paid		(24.2)
Reinsurers’ share of claims paid		-
Claims paid net of reinsurance		(24.2)
Change in the gross provision for claims		(278.5)
Change in the provision for claims, reinsurers’ share		-
Change in the net provision for claims		(278.5)
Claims incurred, net of reinsurance		(302.7)
Net operating expenses	7	(134.7)
Balance on the technical account		(66.7)
Investment income		0.5
Unrealised gains and losses on investments		0.1
		0.6
Allocated investment return transferred to the technical account		(0.6)
Loss on exchange		(0.4)
Loss for the financial year		(67.1)

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

Balance sheet

As at 31 December 2020

	Note	2020 $m
Assets		
Investments	9	357.1
		357.1
Debtors		
Debtors arising out of reinsurance operations	10	94.1
Other debtors	11	0.7
		94.8
Other assets		
Cash at bank and in hand		12.5
Deferred acquisition costs		119.2
		131.7
Total assets		583.6
Liabilities		
Capital and reserves		
Members' balance	12	(67.1)
Technical provisions		
Provision for unearned premiums	13	354.7
Claims outstanding	13	278.4
		633.1
Creditors		
Other creditors including taxation and social security	14	16.6
		16.6
Other Liabilities		
Accrued expenses		1.0
		1.0
Total Liabilities		583.6

The notes on pages 18 to 29 are an integral part of these financial statements.

The financial statements on pages 14 to 29 were approved by the board of directors on 19 March 2021 and signed on its behalf by:

CE Barton
Finance Director

Statement of changes in members' balance

For the year ended 31 December 2020

	Note	2020 $m
Balance at 1 January		-
Loss for the financial year	12	(67.1)
Balance at 31 December		(67.1)

The members participate on the syndicate by reference to underwriting year of account. Analysis of the members' balance by underwriting year of account is shown in note 12 to these accounts.

Statement of cash flows
For the year ended 31 December 2020

	Notes	2020 $m
Loss for the financial year		(67.1)
Increase in gross technical provisions		633.0
Increase in debtors		(94.1)
Increase in creditors		15.8
Movement in other assets/liabilities		(118.2)
Investment return		(0.6)
Foreign exchange		0.9
Net cash flows from operating activities		369.7
Cash flows from investing activities		
Purchase of debt instruments		(281.4)
Sale of debt instruments		0.6
Investment income received		0.3
Other		(5.9)
Net cash flow from investing activities		(286.4)
Net increase in cash and cash equivalents		83.3
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year		83.3
Cash at bank and in hand		12.5
Short term investments - cash equivalents		70.8
Cash and cash equivalents at end of year		83.3

Notes to the financial statements

1 Statement of compliance

The accounts of Syndicate 2019 have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Insurance Contracts standard ("FRS 103") and Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these accounts are set out below.

3 Accounting policies

Basis of preparation

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

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

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

(a) Insurance contracts – classification

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

(b) Gross premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. (Note that there are no such adjustments for the 2020 financial year.) Premiums are shown gross of acquisition costs such as brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet received or notified to the syndicate.

(c) Outwards reinsurance premiums

Outwards reinsurance premiums written comprise premiums for contracts incepted during the financial year as well as adjustments made in the year to outwards reinsurance premiums written in prior accounting periods. (Note that there was no outwards reinsurance for the 2020 financial year.)

(d) Unearned premiums

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

(e) Claims incurred

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

Notes to the financial statements (continued)

3 Accounting policies (continued)

(f) Claims provisions and related reinsurance recoveries

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

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

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

For longer tail business, where there are liability exposures, the time from the occurrence of a claim to it being reported and the subsequent time before settlement of the claim can be many years. In this time additional facts regarding individual claims and trends often will become known and legislation and case law may change, affecting the ultimate value of the claim.

Provisions are calculated gross of any reinsurance recoveries as the syndicate has not purchased any reinsurance protections.

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

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

(g) Unexpired risks provision

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

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return. No provision for unexpired risks was required for the 2020 year.

(h) Acquisition costs

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

(i) Foreign currency

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

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

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

	2020	
	Average	Closing
Sterling	0.78	0.73

3 Accounting policies (continued)

(j) Investment return

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

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

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

(k) Financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Insurance debtors and creditors

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

(l) Taxation

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

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

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

Notes to the financial statements (continued)

3 Accounting policies (continued)

(m) Profit commissions

Profit commissions payable to the managing agency which are expected to arise on closure of a Lloyd's year of account are recognised on an accruals basis, taking into consideration any deficit clauses. The managing agent's charges for the 2020 year of account do not include profit commission.

(n) Members' balance and distribution

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

4 Key judgements and uncertainties

Premium estimates

Critical estimates include premium written and the earning pattern of recognising premium over the life of the policy. Premium written is initially based on the estimated premium income (EPI) which will ultimately be written under the proportional quota share treaty. The gross premiums assumed under the quota share treaty are after application of reinsurance protections by the cedant. EPI is monitored at least quarterly by reference to data provided by PCG. EPI at 31 December 2020 is $376,676. Premium is earned on a straight line basis for underlying PCG policies which have been ceded under the quota share contract.

Claims provision

The most critical estimate with the balance sheet is the estimate for insurance losses incurred but not reported (IBNR), which is included in claims outstanding in the balance sheet. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported at 31 December 2020 is $240.8m.

5 Risk management

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

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

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

(a) Insurance risk

Insurance risk comprises both underwriting risk and reserving risk. Insurance risk arises from the fluctuations in timing, frequency and severity of insured events, relative to expectations at the time of underwriting, as well as inappropriate pricing, selection and approval of the underlying insurance risks.

The PCG business plan for the prospective year of account is reviewed in depth prior to underwriting the quota share contract. A key contributor to insurance risk is catastrophe accumulations, whether natural or man-made. Various controls exist to ensure that the syndicate accurately records and monitors these accumulations.. The business ceded to the syndicate is after the application of PCG reinsurance protection to arrive at an acceptable level of risk. The syndicate has in place procedures and controls to manage and monitor the assessment of claims and the setting of appropriate reserves. Please see note 13 for claims development triangles.

Notes to the financial statements (continued)

5 Risk management (continued)

(b) Credit risk

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

Investment counterparties – investment guidelines ensure that the syndicate's investments are held in high quality instruments. The portfolio is monitored for concentration with respect to issuers and credit ratings. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties. Of the total fixed interest and cash investments as at 31 December 2020, 98.4% are with counterparties having a credit agency rating of A- or better.

Reinsurance counterparties – there are no reinsurance counterparties.

Broker counterparties – underwriters may only write business through an approved counterparty. The quota share contract is written through Aon which has a credit rating of A-.

The syndicate has no premiums receivable that are past due at the reporting date

Balances with investment counterparties are rated as follows:

As at 31 December 2020	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	187.7	13.6	79.0	-	-	-	280.3
Shares and other variable yield securities	70.8	-	-	-	-	6.0	76.8
Cash at bank and in hand	-	-	12.5	-	-	-	12.5
	258.5	13.6	91.5	-	-	6.0	369.6

5 Risk management (continued)

(b) Liquidity risk

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

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

At 31 December 2020 the average duration of syndicate funds to maturity was 1.8 years compared to 1.1 years for syndicate claims outstanding.

At 31 December 2020	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial assets						
Debt securities and other fixed income securities	-	5.9	220.1	23.1	31.2	280.3
Shares and other variable securities	76.8	-	-	-	-	76.8
Cash at bank and in hand	12.5	-	-	-	-	12.5
	89.3	5.9	220.1	23.1	31.2	369.6
Financial liabilities						
Technical provisions - claims outstanding	-	115.8	162.6	-	-	278.4
Other creditors including taxation and social security	-	16.6	-	-	-	16.6
	-	132.4	162.6	-	-	295.0

The syndicate has a loan facility in place with a group entity. The loan facility was for $50m at the balance sheet date and then subsequently increased to $100m. This is designed to cover any short term funding needs that may arise. The facility had not been utilised as at 31 December 2020. In February 2021 $67m was drawn down with the expectation of being repaid in May 2021.

Notes to the financial statements (continued)

5 Risk management (continued)

(c) Market risk

Market risk is the risk that the value of a portfolio of assets will decline due to changes in market factors. These factors include stock market prices, interest rates, foreign exchange rates and commodity prices. As the syndicate do not hold shares or commodities, it is not directly exposed to the price risk relating to them. Further detail of investments is shown in note 9.

Foreign exchange risk

This is the risk that foreign exchange rate movements could impact the valuation of assets and liabilities in the syndicate's reporting currency. The syndicate's results are reported in US dollars and assets and liabilities are held primarily in US dollars. Therefore, there is only minimum risk that fluctuations in exchange rates would have a significant effect on results and net assets.

Interest rate risk

This is the risk that an increase in interest rates or volatility in the fixed income markets could result in significant unrealised or realised losses in the market value of the investment portfolio. The syndicate is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the syndicate to cash flow interest rate risk. Fixed interest rate assets expose the syndicate to fair value risk. The syndicate's strategy is to invest in high quality, liquid, fixed and floating rate interest securities and cash and to manage duration actively. The investment portfolios are managed actively to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the business. If interest rates had increased/decreased by 0.5%, investment return for the year would have been lower/higher by $3.5m (2019: N/A)

(d) Operational Risk

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

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

Notes to the financial statements (continued)

6 Segmental information

The syndicate only underwrites reinsurance business. All premium written is for a single contract concluded in the UK.

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

	2020 $m
US	724.7
	724.7

7 Net operating expenses

	2020 $m
Brokerage and commission	243.5
Other acquisition costs	-
Acquisition costs	243.5
Acquisition costs - change in deferred acquisition costs	(119.2)
Administrative expenses	10.4
Gross operating expenses	134.7
Reinsurance commissions and profit participations	-
	134.7

An analysis of the amounts paid to the syndicate's auditors and associates is given below.

	2020 $m
Fees payable to the syndicate's auditors and their associates in respect of:	
Audit of the syndicate annual accounts	0.3
Other services pursuant to legislation	0.2
	0.5

8 Employees and directors

The syndicate has no direct employees. The staff and directors who provide services to the syndicate are employed by a group service company. The service company charges a management fee to the Managing Agent which charges the syndicate a Managing Agent's fee. Staff cost or numbers are not separately identified.

9 Investments

	Cost 2020 $m	Market Value 2020 $m
Investments at fair value		
Debt securities and other fixed income securities	280.2	280.3
Shares and other variable yield securities	76.8	76.8
Total	357.0	357.1

Investments at fair value analysis		
Government debt	150.8	150.9
Corporate debt	98.4	98.2
Short term investment - cash equivalents	70.8	70.8
Asset backed securities	31.0	31.2
Loan to Lloyd's Central Fund	6.0	6.0
Total	357.0	357.1

Shares and other variable yield securities include short-term highly liquid investments of $70.8m and loans to the Lloyd's Central Fund of $6.0m. Short–term highly liquid investments are readily convertible to known amounts of cash with an insignificant risk of change in value, i.e. cash equivalents. Loans to the Lloyd's Central Fund are held at par value of $6.0m as a proxy for fair value.

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Fair value estimation

The syndicate recognises investments at their fair value in the balance sheet. The syndicate's investments valuations are provided principally by AIG Asset Management (Europe) Limited, who in turn use data from a number of sources including index providers (e.g. Barclays Capital), commercial valuation providers and broker-dealers.

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

Level 1 – the unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date,

Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly, and

Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability. Loans to the Lloyd's Central Fund are classified as level 3 assets.

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

2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	150.9	129.4	-	280.3
Shares and other variable yield securities	70.8	-	6.0	76.8
Total	221.7	129.4	6.0	357.1

Notes to the financial statements (continued)

10 Debtors arising out of direct reinsurance operations

	2020 $m
Premiums due from intermediaries within one year	94.1
	94.1

There are no overdue debtors as at 31 December 2020

11 Other debtors

	2020 $m
Accrued interest	0.7
	0.7

Accrued interest is receivable within one year

12 Statement of changes in members' balance

Year ended 31 December 2020	2020 YOA Open $m	Total 2020 $m
Retained profit/(loss)		
At 1 January	-	-
Profit/(loss) for the year	(67.1)	(67.1)
At 31 December	(67.1)	(67.1)

13 Technical provisions

Year ended 31 December 2020	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	-	-
Movement in the provision	354.7	278.4
Exchange adjustment	-	-
As at 31 December	354.7	278.4

Notes to the financial statements (continued)

13 Technical provisions (continued)

Claims development triangles

Whole account, underwriting year Gross earned ultimate claims	2020 $m	Total $m
12 months	302.7	302.7
Total gross earned ultimate losses	302.7	302.7
less paid claims	(24.3)	(24.3)
Gross claims liabilities	278.4	278.4
Provision in respect of prior years		-
Total provision in the balance sheet		278.4

Whole account, underwriting year Net earned ultimate claims	2020 $m	Total $m
12 months	302.7	302.7
Total gross earned ultimate losses	302.7	302.7
less paid claims	(24.3)	(24.3)
Net claims liabilities	278.4	
Provision in respect of prior years		-
Total provision in the balance sheet		278.4

14 Other creditors including taxation and social security

	2020 $m
Amounts due to group companies	16.6
	16.6

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

Notes to the financial statements (continued)

15 Related parties

Parent Companies

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

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

Related party transactions

All transactions are with related parties on an arms length basis except for direct syndicate expenses with third parties which amounted to $6.8m.

Corporate member

PCG 2019 Corporate Member Ltd (PCGCM), an AIG company, has a 97.18% participation on the 2020 underwriting year and a 82.5% participation on the 2021 underwriting year.

In accordance with the terms of its agreement with Talbot, the managing agency, PCGCM is charged an annual fee. The amount charged to PCGCM is incurred on behalf of PCGCM by the syndicate and included within personal expenses. The annual fee for 2020 was $3.6m.

16 Capital

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

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, license and ratings objectives. Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at an overall member level.

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

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

Officers and professional advisors

Managing agent
Talbot Underwriting Ltd
60 Threadneedle Street
London
EC2R 8HP

Managing agent's registered number

2202362

Directors

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

Company secretary
M-C Gallagher

Syndicate
TAL Syndicate 2019

Active underwriter
I Peterson

Bankers
Barclays plc
Citibank NA

Investment managers

AIG Asset Management (Europe) Limited
58 Fenchurch Street
London
EC3M 4AB

Lloyd's Treasury Services
One Lime Street
London EC3M 7HA

Independent auditors
PricewaterhouseCoopers LLP
7 More London
Riverside
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SE1 2RT