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NAVIGATORS
UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1 2 2 1
at LLOYD'S

# Syndicate Annual Accounts
31 December 2020

# NAVIGATORS
UNDERWRITING AGENCY LIMITED

S Y N D I C A T E 1221
at LLOYD'S

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**Directors and administration**

**Managing Agent**
Navigators Underwriting Agency Limited

**Directors**
C L Bach III
N J Farrer
M R Fisher*
G E Johnson*
M J McKenna* (resigned 14th May 2020)
C D Short*
C D Sprott
M J Sullivan*
V C Tizzio*

* Non-executive

**Managing Agent's Registered Office**
7-8th Floor, 6 Bevis Marks,
London,
EC3A 7BA

**Managing Agent's Registered Number**
01380715

**Active Underwriter**
Colin D Sprott

**Bankers**
Citibank N.A.
Royal Bank of Canada
Societe Generale S A

**Investment Managers**
New England Asset Management Limited

**Statutory Auditor**
Deloitte LLP, London

**Directors' Interests**
None of the Directors of the Managing Agent have any participation in the Syndicate's premium income capacity

**Solicitor**
Norton Rose Fulbright LLP, London

**Strategic Report of the Directors of the Managing Agent**

The Directors of the Managing Agent ("the Directors" or "the Board") present their report for Syndicate 1221 ("Syndicate") for the year ended 31 December 2020. The Syndicate's Managing Agent is a company registered in England and Wales.

This Strategic Report provides an overview of the Syndicate's strategic management, business environment, performance and financial position and the s.172 statement that sets out the Managing Agent's management of specific matters as required under that section. In addition, whilst there is no specific requirement to report on the actions taken to respond to climate change, the Syndicate's actions are set out within the paragraphs that follow.

**Strategic management**

In 2020, against the backdrop of a buoyant insurance market, the Syndicate recorded significant rate rises across most classes of business with an overall rate rise of 28%. Nonetheless, the Syndicate reported an overall loss and combined ratio of 121.4%, due to Covid-19 related reserve strengthening, large current accident year losses within our Marine division and prior year reserve strengthening within our Financial Lines division. A detailed review by division is provided in the Market Review paragraphs.

In 2020, the Syndicate continued with our qualitative rolling remediation review of all policies and delegated authority relationships across all lines of business. The purpose of this review was to re-balance the overall underwriting portfolio to focus on growing more profitable segments of business whilst reducing exposure to, or exit from, under-priced or unprofitable lines of business. This is reflected in a 15.7% reduction in gross written premium in 2020, however the 2021 Syndicate Business Forecast recorded a £10m increase in Syndicate capacity from £265m to £275m for the 2021 year of account in order to take advantage of the favourable underwriting conditions.

On 23 May 2019, The Hartford Financial Services Group, Inc., known as "The Hartford", a United States based company in Connecticut, completed their acquisition of the Navigators Group, Inc., of which the Syndicate is a member, for $2.1bn. Work to integrate the Syndicate and other Navigators Group, Inc. companies into The Hartford has continued at pace through 2020, allowing the Syndicate to leverage the wider Group resources across a number of functions including Underwriting and Underwriting Operations, Actuarial, Finance, IT and Claims. As the Syndicate is The Hartford's main underwriting platform for international operations outside of the USA, the Syndicate is expected to be an instrumental vehicle for The Hartford's future international growth.

The Board is conscious that climate change is likely to significantly impact the global insurance and reinsurance market, risk assessment, selection and pricing in the future. The potential risk, frequency and severity of loss to insured parties is likely to increase. For an insurer, climate change presents a mix of opportunities and threats. As a result, the type and level of cover offered by the Syndicate in the future may vary to that offered at present. By its very nature, increasing global temperatures leading to rising sea levels from melting glaciers in the Antarctic and Greenland will result in an increase in variable and extreme wind related weather events, as well as flooding, drought, widespread fire damage and even pestilence and disease. The Board is aware that the consequential increase in loss of life, property, business interruption, increased political violence and litigation is likely to mean that pricing models will need to be adapted to take account of the resulting change in the natural as well as insurance and reinsurance environments. In future years this will be carefully considered within the Syndicate Business Forecast setting process.

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

**Business performance measures**

The Syndicate recorded a net loss for the year of £35.9m compared to a loss of £54.9m for the prior year. This loss comprised an underwriting loss of £54.9m (2019: underwriting loss of £71.6m), an overall investment result of £20.9m (2019: £21.0m) and foreign exchange loss of £1.9m (2019 loss: £4.3m). The Syndicate's combined ratio for 2020 was 121.4% (2019: 126.4%).

The Syndicate's key financial performance indicators during the year were as follows:

| | **2020 £000** | 2019 £000 | % |
|---|---|---|---|
| Gross premiums written | **302,452** | 358,647 | (15.7)% |
| Net premiums written | **247,700** | 280,650 | (11.7)% |
| Net earned premiums | **256,608** | 271,203 | (5.4)% |
| Net operating expenses | **99,923** | 110,269 | (9.4)% |
| Investment income | **7,567** | 7,824 | (3.3)% |
| Combined Ratio | **121.4%** | 126.4% | |

*Note: The combined ratio is the ratio of net claims incurred plus net operating expenses to net premiums earned and excludes foreign exchange gains and losses. A lower combined ratio represents better performance.*

Gross written premiums for 2020 were £302.5m, representing a decrease of 15.7% compared to 2019. This decrease was primarily driven by our continued portfolio remediation exercise through 2020, resulting in the exit from certain lines of business and reducing our delegated authority book across most classes of business.

Net written premium and net earned premium decreased by 11.7% and 5.4% respectively. This is due to the decreases in gross written premium and reductions in ceded reinsurance expenditure in Financial Lines and Marine & Energy.

Net operating expenses are 9.4% lower than in 2019. This is mainly due to reductions in commission payable and a decrease in administration expenses relating to one-off items incurred in 2019.

Investment income, which excludes unrealised gains and losses, has remained flat with a slight decrease of 3.3% from the prior year due to a decrease in investment yields and more funds under investment. The overall investment result, which is net of investment expenses, has stayed in line at £20.9m from £21.0m in the prior year.

The Syndicate's combined ratio has decreased from 126.4% in 2019 to 121.4% in 2020. The decrease is driven by:

- Reduced commission cost experienced on open market business coupled with the reduction of delegated authority business which attracts higher commission rates.
- Reduced management expenses.
- While there was significant prior and current year reserve strengthening, it was a lower degree than during 2019.

**Member's Funds**

The member's funds stood at £110.9m (2019: £142.1m) at year end, with the decrease in line with the loss recorded during the period.

During 2021, Syndicate 1221 will close the 2018 YOA with a loss of £76.8m, compared to a loss of £45.1m on the 2017 year of account, closed during 2020.

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

**Covid-19**

The Syndicate has reported reserves of £22.7m gross and £20.0m net to Covid-19, with a £10m net loss due to direct impact in our Marine & Energy and Global Re divisions. Our remaining exposure is due to the potential secondary economic impact created by government action and lockdown restrictions affecting business written in our Financial Lines division. If restrictions were to continue during 2021 we do not currently believe our booked reserves would materially increase.

The Syndicate's operations were not materially impacted by Covid-19 or the associated "lock downs" during 2020, the technology, operational infrastructure and detailed planning enabled the business to continue in a work from home environment.

**Market Review**

A review of our five divisions is provided below:

***Marine & Energy***

During 2020, and following the decision to discontinue our Downstream Energy and Power & Utilities classes of business, we decided to combine the remaining Upstream Energy class within our Marine division under single leadership. The core Marine portfolio continues to write a broad section of the Marine market, concentrating on Cargo and Transportation, Marine and Energy Liability and Specie. During 2019, we took the decision to exit Hull business due to poor performance and stagnant market conditions. The Hull line has been in run-off since the fourth quarter of 2019. During 2020 we have also ceased writing Marine War.

Market conditions within the chosen classes were favourable through 2020, with double digit rate rises recorded across the division as a whole. We expect rate rises to persist in 2021 across all lines, although at a lower overall quantum than seen in 2020.

***Financial Lines***

Financial Lines covers the Professional class of business, incorporating Errors and Omissions ("E&O"), Directors and Officers ("D&O"), Transactional Liability and Financial Institutions ("FI").

We continued to see historical large loss activity impacting the D&O book. Significant reserve strengthening on prior years combined with current year strengthening for Covid-19, led to an overall loss in this class. Significant remedial work, has taken place over the past 36 months, and is now in alignment to our new strategy. Within D&O substantial positive rate increases (+100%) have been seen during 2020 including aggregate limit reductions, non-renewal of a number of delegated facilities, and tightening of terms and conditions across the portfolio.

The Errors and Omissions book saw positive rate change of 36.8%, whilst reserves benefitted from some prior years releases resulting in an underwriting profit in this class for 2020.

The Transactional Liability book consisted of one large delegated facility relationship. Prior year reserve strengthening led to an overall loss in this class. Management has made the decision to exit Transactional Liability during 2021.

The Financial Institutions made an underwriting loss during 2020. This was due to reserve strengthening on both prior and current accident years.

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

**Market Review (continued)**

***Casualty***

Casualty comprises General Liability augmented by Life Sciences and Environmental books of business. All product lines experienced positive rate change during 2020 with General Liability showing significant rate change of 23.1%. The Casualty division saw prior year strengthening on General Liability which resulted in an overall underwriting loss for the division, however both Life Sciences and Environmental classes of business were profitable.

***Political Risk***

Political Risk covers Political Violence and Terrorism ("PV&T") and Credit and Political Risk ("CPRI").

CPRI is a new line of business this year, which has slightly written below plan due to a change in management strategy due to Covid-19. This class of business is protected by a 70% proportional treaty reinsurance cover in this early stage of development. CPRI is currently making a loss due to start-up costs on a small earned premium base.

Within the PV&T class, we continue to see moderate growth against a backdrop of a flat rating environment. The class again recorded an underwriting profit in 2020.

***Global Re***

Our Global Re division forms part of the wider assumed reinsurance offering of The Hartford, with the Syndicate providing access to London Market business. The division writes a stable portfolio of business, concentrated on International Property Treaty. During 2020, the decision was taken to discontinue the Marine Treaty and Agriculture classes of business. The division recorded an underwriting loss during the year, primarily due to Covid-19 losses within our Property Treaty class.

**Principal risks and uncertainties**

The Managing Agent has established a robust enterprise-wide Risk Management Framework to identify, assess and manage the risks it faces. The framework ensures that risks are proactively managed using a number of risk management techniques, which helps assess threats to objectives.

The Board reviews risk appetite annually as part of the Syndicate's business planning and capital setting processes and as an element of its risk management framework. The Board has identified the principal risks facing the Syndicate and has established documented strategies for their assessment, mitigation and monitoring. A Risk and Compliance Committee, which is a sub-committee of the Board, meets regularly to assess the effectiveness of the Risk Management Framework and level of risk against appetite.

The Managing Agent has a Chief Risk Officer, with responsibilities for owning, developing and managing the Risk Management Framework and its supporting methodologies and tools, ensuring they remain fit-for-purpose in response to changes within the Managing Agent, the Syndicate and the overall operating environment. Additionally, the Chief Risk Officer is tasked with overseeing the identification, assessment and management of new and existing risks through the use of the Risk Management Framework and ensuring the quality of the outcome of these activities. An overarching Risk Management Policy is in place, supported by a Risk Category Policy that identifies headline risk appetite, key controls and risk governance.

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

**Principal risks and uncertainties (continued)**

The principal risks and uncertainties faced by the Syndicate are detailed below. In recent years, Brexit has been highlighted as a key risk and required management focus. Whilst remaining a key risk, the establishment of Lloyd's Brussels has diminished this risk as the new way of conducting business with EU countries is becoming normalised. Additionally, the Syndicate completed its Part VII transfer of European business relating to 2018 and prior on 30th December 2020 to Lloyds Brussels. Integration and process re-alignment with The Hartford commenced in May 2019 and continued to area of focus during 2020.

**Underwriting Risk**

- The risk that a loss may arise from fluctuations in timing, frequency and severity of insured events relative to plan, and fluctuations in timing and amount of claims settlements.

- To manage this risk, detailed policies and procedures are in place, including underwriting authorities, limits and guidelines, along with exposure monitoring. Extensive reinsurance is purchased to mitigate underwriting risk and there is a robust control environment in place around the placement of reinsurance, including a framework and monitoring.

**Reserving Risk**

- The risk of insufficient provision for losses that have already occurred.

- In order to manage this risk, regular claims and loss monitoring is performed, as well as regular reviews of the reserving process by a specialist third party. These results are reviewed, alongside the Actuarial function assessment, at the Reserving Committee.

**Credit Risk**

- The risk of losses arising on outstanding contracts should a counterparty default on its obligations or find other reasons for non-payment.

- There is a framework in place to assess and approve all reinsurers and reinsurance purchases, including the detailed criteria for consideration. This states that a rating of a minimum of A- from AM Best, or equivalent, is required in respect of all reinsurance security at the time any such reinsurance is bound, unless a specific exception is granted. Credit control procedures are in place for all counterparties, with broker credit risk reported through to the Underwriting & Claims Committee. Provisions are made for any amounts considered uncollectible.

- Investment credit risk is managed conservatively by defining portfolio limits for each investment grade rating band within the investment guidelines.

**Liquidity Risk**

- The risk or inability to realise investments and other assets in order to settle its financial obligations when they fall due.
- In order to manage this risk, the Board has put in place detailed investment guidelines. The guidelines are used by the investment managers and oversight is maintained by the Board's investment sub-committee.
- On a quarterly basis a range of macro level liquidity ratios are calculated and reviewed.

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

**Principal risks and uncertainties (continued)**

**Operational Risk**

- The risk the Syndicate suffers a loss as a result of inadequate or failed internal process, as a result of people's actions, system processes or external events.
- In order to mitigate this risk, the Managing Agent ensures material operational risks are identified and controls adopted to mitigate these risks, with oversight and challenge from the Risk and Compliance and Audit Committees.
- The integration with The Hartford is subject to careful project planning and continuing reporting to and monitoring by the Board.

**Market Risk**

- The risk of uncertainty of asset prices, interest rates, foreign exchange rates and other factors related to financial markets and investment asset management.
- In order to manage this risk, the Managing Agent imposes restrictions on the external investment managers' investment strategies. Strict limits, by trust fund, are set for types of assets held, concentration limits and average investment grade ratings. Investments are typically investment grade bonds and investment grade asset backed securities. Guidelines and benchmarks are set annually and approved by the Board. Regular reporting is reviewed and monitoring undertaken by the Investment Committee.

**Concentration Risk**

- The risk of losses arising from the correlation and concentration of business written within geographical area, of a policy type or of underlying risks covered, or that may arise with respect to investments in a geographical area, economic sector or individual investments. Concentration risk refers to an exposure with the potential to produce losses large enough to jeopardise the Syndicate's solvency or ability to maintain its core operations.
- The management of this risk is addressed within each risk class, between risk classes and through robust stress and scenario testing, including the use of specialist catastrophe models.

**Strategic Risk**

- The risk of incurring losses resulting from an inappropriate strategy being set or the inadequate implementation of strategy.
- Strategy is a matter reserved for the Board and monitored on an ongoing basis by both the Board and the Managing Agent's Executive Leadership Team. Risk management is a fundamental aspect of formulating strategy.

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

**Principal risks and uncertainties (continued)**

**Reputational Risk**

- The risk of losses through deterioration of the Syndicate or Managing Agent's reputation (or the Lloyd's brand) due to a negative perception of any aspect of the business or business practices, whether true or not, which could result in a decline of its customer base or costly litigation, or a negative impact on its revenue.

- In order to manage this risk, the Managing Agent has put in place detailed policies and procedures for the effective and efficient management of claims and complaints, and for ensuring that customers are treated fairly and Conduct Risk requirements are followed at all times. The Code of Ethics is reviewed and acknowledged annually by all employees and training is also mandated periodically on material laws and policies related to ethical behaviour. Regular dialogue is maintained with regulatory bodies such as Lloyd's, the Prudential Regulation Authority and the Financial Conduct Authority.

**Regulatory Risk (which is assessed for capital purposes within the Operational Risk category)**

- The Managing Agent is required to comply with the requirements of the Prudential Regulation Authority, Financial Conduct Authority, Lloyd's and those imposed upon the Lloyd's market by overseas regulators where the Syndicate conducts business. Regulatory risk is the risk of loss owing to changes in current regulatory requirements or the imposition of new requirements. Such changes could increase capital requirements, increase operational costs, reduce the profitability of business or change the competitive landscape.

- The Managing Agent employs a Compliance Officer, who monitors regulatory developments and assesses the impact on the Managing Agent and Syndicate. These activities form part of an annual plan which includes compliance reviews against established policies, processes and procedures.

**Covid-19**

- During 2020, the Risk Management Framework focused on the assessment and management of risks related to the global pandemic. Risks were assessed across all of the categories detailed above, such as market, operational and underwriting, including all underwriting divisions.

- A number of risk management techniques were utilised to help understand and manage the risk, from standard risk assessments to detailed business continuity planning and stress and scenario testing. Regular updates of the key risks were reported to and overseen by the Risk & Compliance Committee

**Climate Change**

- The risk that significant changes in the climate have an adverse impact on the Syndicate and Company's results and ability to carry on their business activity.

- This risk is mitigated by a combination of responses, including operational strategies that are aimed at reducing the use of certain fossil fuels and carbon emissions, and environmentally friendly initiatives within our offices.  Work continues in this space to assess and mitigate climate change, as we recognise the global impact of this issue.

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

**Principal risks and uncertainties (continued)**

**Climate Change (continued)**

- The Board is committed to managing and reducing the environmental impact of the Syndicate in a cost effective and responsible way.

**Brexit**

Under the European Union Withdrawal Act 2020, insurance undertakings in the UK were authorised to access business located in the EEA on a "freedom of services" or under the "right of establishment" through the EU passporting system, until the transition period ended by default on 31 December 2020. Once the UK left the EU, Lloyd's underwriters lost their passporting right and do not have authority to carry on (re)insurance business for risks located in the EEA and Monaco.

Lloyd's established a new insurance company based in Brussels (Lloyd's Insurance Company S.A., known as Lloyd's Brussels), to underwrite non-life insurance and facultative reinsurance risks located in EEA countries with effect from 1 January 2019.

For 2020, the Syndicate had written premiums in the region of £36.4m which were underwritten through Lloyd's Brussels, as well as the creation of various delegated facilities and line slips under which business was written throughout the year. The Syndicate will be assessing the advantages of integrating Lloyd's Brussels' technologies with its own business process for greater efficiencies as this area is developed.

All claims were paid as normal until the UK left the European Union and during any transition period. Lloyd's worked on transferring all non-life European Economic Area (EEA) business that were written by the Lloyd's Market between 1993 and 2018 to Lloyd's Brussels before the end of 2020 via a Part VII portfolio transfer. Lloyd's announced that it instructs underwriters to honour their contractual commitments regardless of the outcome of the political negotiations, which The Hartford has done.

**s.172 Statement by the Directors in performance of their statutory duties**

The Managing Agent's Board of Directors is conscious that in order to fulfil their ongoing responsibilities, due attention must be given to a wide range of key stakeholders, including The Hartford as ultimate parent, staff employed by the group, regulators, clients, third party suppliers, local communities and the environment. The Board is intuitively and continuously aware that virtually every decision made by them will impact one or more of these key stakeholders in varying degrees. In arriving at a decision, the potential impact of the most affected stakeholders is considered either in the submitted paper for discussion and approval, or as part of the general discussion leading to the approval.

The Board, both corporately and individually, consider that they have acted in good faith to promote the success of the Managing Agent for the benefit of the members as a whole. The Board is kept abreast of feedback from the various stakeholders via management and use this feedback to ensure that decision making is made in an informed manner, having regard to the impact on stakeholders and matters set out in s.172(1)(a-f) of the CA 2006. In particular:

(a) The Directors, in making decisions have considered the long-term prospects of the Syndicate, which it manages. The 2021 plan for the Syndicate has been agreed with Lloyd's and work is taking place on an on-going basis to increase the quality of the business being underwritten. This includes the withdrawal from loss making classes of business and focus on the areas where the Syndicate has strength and expertise.

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

**s. 172 Statement by the Directors in performance of their statutory duties (continued)**

(b) Employees are fundamental to the success of the plan. Whilst the Syndicate does not directly employ any staff, it manages group staff who work on Syndicate business. A significant change took place during 2019 when the Navigators Group was acquired by The Hartford. In order to mitigate any risks and allay any fears to staff, informal town hall type meetings are held on a regular basis where business updates are provided to staff and questions invited in an informal setting.

In addition, all staff have access to senior management, who pride themselves on their collaborative, open-door approachable style. The Directors regard this style as one of their core strengths and assists in staff retention.

Staff development is encouraged by the provision of leadership programmes; annual objective setting that includes a review of training and development, and regular reviews between teams and line managers. Salaries and benefits are regularly reviewed to ensure they are not out of alignment with the market.

Diversity and Inclusion ("D&I") is an area of increasing focus both within the broader Hartford organisation and for the Board. A D&I Council has been in position for UK staff through 2020, focusing on supporting our staff locally whilst also communicating the ongoing work in this area at The Hartford Group level.

(c) In order for the Syndicate to be successful in the Lloyd's market, the maintaining of business and customer relationships is vital. Senior management and all levels of staff interact on a daily basis in a professional manner with Lloyd's, brokers, other insurers and reinsurers, service providers (such as data processing, claims management, IT infrastructure management) and insured parties. Interaction occurs as part of our day to day business, through face to face meetings, presentations, or other communications. We also listen to our clients and try to assess their requirements to create innovative products to meet their ever-changing needs.

The Board pays due regard to the ever changing technology environment. The company is actively engaged in the various Future At Lloyd's work streams and is seeking to apply these to its own business model as relevant.

(d) The Directors consider that the Syndicate has a positive impact on the environment and society at large. The process of underwriting encourages insured parties to consider and take steps to minimise their corporate and personal risks as well as provide financial compensation for catastrophic and other losses. The Directors are conscious that business activity may add to the increase in carbon emissions so staff are encouraged to consider their own footprint. This includes the use of videoconferencing that reduces the need to travel, home working where appropriate, the provision of recycling bins and the switching off of electrical equipment when leaving the office. Staff are also encouraged to take part in charitable activities, with the newly appointed D&I Council actively promoting events throughout the year.

(e) The Board and senior management team lead by example to set the level of professionalism expected from employees. High business standards are promoted by the Corporate Governance and Compliance departments. Staff are regularly required to carry out online training covering topics such as GDPR, conflicts of interest and financial crime to ensure they are up to date with legislation. Many of these business conduct standards are set out in the Lloyd's Minimum Standards.

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

**s. 172 Statement by the Directors in performance of their statutory duties (continued)**

(f) Having regard to all the above, the Directors are also aware that all members of the Syndicate, whether group employees engaged on Syndicate business or participating member, need to be treated fairly in order to best facilitate the desired outcome of the chosen strategy . The open style of management adopted by the Directors facilitates employees to raise issues with managers so that appropriate steps can be taken to resolve issues as they rise.

Approved and authorised for issue by the Board of Directors

N J Farrer
Director
2 March 2021

**Report of the Directors of the Managing Agent**

The Directors of the Managing Agent present their report for the year ended 31 December 2020.

This annual report is 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 ("the 2008 Regulations"), and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103').

**Directors**

The Directors of the Managing Agent who served during the year ended 31 December 2020 and up to the date of this report are as follows:

C L Bach III
N J Farrer
M R Fisher
G E Johnson
M J McKenna (resigned 14th May 2020)
C D Short
C D Sprott
M J Sullivan
V C Tizzio

**Going Concern**

As explained in the Strategic Report, The Syndicate is The Hartford's main underwriting platform for international operations outside of the USA and is expected to be an instrumental vehicle for The Hartford's future international growth. The Board acknowledges that the Syndicate's results have been disappointing and that remediation of the portfolio has been ongoing during 2020 in order to return the Syndicate to profitability. In addition, and in light of the high expense ratio in 2019, the Syndicate has been tasked with reducing costs in 2020 and beyond. The Syndicate's service company, Navigators Management (UK) Limited ("NMUK") has therefore carried out a review of external business relationships as well as examining internal processes in order to drive costs down and improve efficiencies. This will be partly achieved by leveraging The Hartford's existing processes and relationships. Whilst the project to integrate with The Hartford will lead to a one-off increase in costs, it is expected that costs will reduce in the longer term.

During the year, the Board worked with senior management of The Hartford and Lloyd's to agree the 2021 Syndicate Business Forecast and The Hartford continues to provide capital to support the business plan. The 2021 Syndicate Business Forecast also indicates an expansion of underwriting activities as the Syndicate underwriting capacity has been increased by £10m to £275m from £265m in 2020.

The Board has considered the Covid-19 pandemic that is currently having a global impact. The Company has adequate financial resources and a robust business continuity plan in place that is functioning well. To date the crisis has had a limited financial impact on the Company and Syndicate. The Board will continue to monitor the development of the crisis from a social, political and economic standpoint and look to adapt its strategy, where necessary, as the long term impacts become clearer.

Having considered the above, the principal risks set out in the Strategic Report and having made other enquiries as necessary, the Directors have a sound expectation that the Syndicate has adequate resources and support of its member to continue in operational existence for the foreseeable future. For these reasons, the Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

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

**Post Balance Sheet events**

There are no subsequent events to note at the date of the approval of the accounts.

**Strategic management**

The principal activity is the transaction of general insurance and reinsurance business in the United Kingdom. The capacity for Syndicate 1221 ("the Syndicate") in 2020, 2019, and 2018 was £265m, £255m and £255m respectively. The Syndicate capacity is gross premium net of commissions and is calculated using Lloyd's Syndicate business forecast rates of exchange. Gross written premium in the technical account is calculated at average rates of exchange.

The Syndicate now manages its business through five divisions comprising Marine & Energy, Casualty, Financial Lines, Political Risks and Global Re.

**Disclosure of information to the auditor**

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

**Re-appointment of auditor**

Pursuant to Section 14 (2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

The Managing Agent proposes the re-appointment of Deloitte LLP as the Syndicate auditor.

**Directors and Officers Protection**

The Hartford maintains a Directors and Officers liability insurance policy which indemnifies the Directors of the Managing Agent if a claim is made against them in their capacity as a Director of that company.

**Managing Agent's registered office**
7-8th Floor, 6 Bevis Marks,
London,
EC3A 7BA

Approved and authorised for issue by the Board of Directors

N J Farrer
Director
2 March 2021

**Statement of Managing Agent's responsibilities in respect of the Syndicate Financial Statements**

The Directors of the Managing agent are responsible for preparing the syndicate financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their syndicates' financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the financial statements 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 financial statements, the directors of the managing agent 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 have been followed, subject to any material departures disclosed and explained in the financial statements;
- Assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors of the managing agent are responsible for the maintenance and integrity of the syndicate and financial information included on the syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved and authorised for issue by the Board of Directors

N J Farrer
Director
2 March 2021

**Independent Auditor's report to the member of Syndicate 1221**

**Report on the audit of the syndicate annual financial statements**

**Opinion**

In our opinion the syndicate annual financial statements of Syndicate 1221 (the 'syndicate'):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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 financial statements which comprise:

- the income statement: technical account;
- the income statement: non-technical account;
- the statement of other comprehensive income;
- the statement of financial position;
- the statement of changes in members' balances;
- the statement of cash flows; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the syndicate annual financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the managing agent's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

**Independent Auditor's report to the member of Syndicate 1221 (continued)**

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

**Other information**

The other information comprises the information included in the annual accounts, other than the syndicate annual financial statements and our auditor's report thereon. The managing agent is responsible for the other information contained within the annual accounts. Our opinion on the syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement themselves. 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 in this regard.

**Responsibilities of managing agent**

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual financial statements, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing, as applicable, matters related to the syndicate's ability to continue in operation and to use the going concern basis of accounting unless the managing agent intends to cease the syndicate's operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the syndicate annual financial statements**

Our objectives are to obtain reasonable assurance about whether the syndicate annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but 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 financial statements.

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

**Extent to which the audit was considered capable of detecting irregularities, including fraud**

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

**Independent Auditor's report to the member of Syndicate 1221 (continued)**

We considered the nature of the syndicate and its control environment, and reviewed the syndicate's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit, about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the syndicate operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005); and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the syndicate's ability to operate or to avoid a material penalty. These included the requirements of Solvency II.

We discussed among the audit engagement team including relevant internal specialists such as actuarial and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Estimation of pipeline premiums requires significant management judgement and therefore there is potential for management bias through manipulation of core assumptions. In response our testing included, on a sample basis, comparing management's estimates on prior year policies against actual premiums received as well as to historical experience on similar policies.
- Valuation of technical provisions includes assumptions and methodology requiring significant management judgement and involves complex calculations, and therefore there is potential for management bias. In response to these risks we engaged actuarial specialists to develop independent estimates of the technical provisions.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports, and reviewing correspondence with Lloyd's and the PRA.

**Report on other legal and regulatory requirements**

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

**Independent Auditor's report to the member of Syndicate 1221 (continued)**

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

- the information given in the strategic report and the managing agent's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the managing agent's report have been prepared in accordance with applicable legal requirements.

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

**Matters on which we are required to report by exception**

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

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

**Use of our report**

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Adam Ely, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
2 March 2020

**Income Statement: Technical account – General business**
***for the year ended 31 December 2020***

| | | **2020** | | 2019 | |
|---|---|---|---|---|---|
| | **Notes** | **£000** | **£000** | £000 | £000 |
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | 4 | **302,452** | | 358,647 | |
| Outward reinsurance premiums | | **(54,752)** | | (77,997) | |
| Net premiums written | | | **247,700** | | 280,650 |
| Change in the provision for unearned premiums | | | | | |
| Gross amount | | **18,737** | | 2,065 | |
| Reinsurers' share | | **(9,829)** | | (11,512) | |
| Change in the net provision for unearned premiums | | | **8,908** | | (9,447) |
| Earned premiums, net of reinsurance | | | **256,608** | | 271,203 |
| **Other technical income, net of reinsurance** | | | **12** | | — |
| **Allocated investment return transferred from the non-technical account** | | | **12,514** | | 10,256 |
| **Claims incurred, net of reinsurance** | | | | | |
| Claims paid | | | | | |
| Gross amount | 6 | **(176,264)** | | (212,483) | |
| Reinsurers' share | 6 | **43,085** | | 66,607 | |
| Net claims paid | | | **(133,179)** | | (145,876) |
| Change in the provision for claims | | | | Type text here | |
| Gross amount | | **(96,636)** | | (119,055) | |
| Reinsurers' share | | **18,220** | | 32,436 | |
| Change in the net provision for claims | | | **(78,416)** | | (86,619) |
| Claims incurred, net of reinsurance | | | **(211,595)** | | (232,495) |
| **Net operating expenses** | 7 | | **(99,923)** | | (110,269) |
| **Balance on the technical account for general business** | | | **(42,384)** | | (61,305) |

All operations are continuing.

The accompanying notes form part of these financial statements

**Income Statement: Non-technical account**
***for the year ended 31 December 2020***

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Balance on the technical account for general business** | | **(42,384)** | (61,305) |
| Investment income | 10 | **7,567** | 7,824 |
| Unrealised gains on investments | | **5,466** | 2,862 |
| Investment expenses and charges | | **(519)** | (429) |
| Allocated investment return transferred to general business technical account | | **(12,514)** | (10,256) |
| Investment return on capital provided by members | | **8,431** | 10,728 |
| Loss on foreign exchange | | **(1,935)** | (4,323) |
| **Loss for the financial year** | | **(35,888)** | (54,899) |

**Statement of Other Comprehensive Income**
***for the year ended 31 December 2020***

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Loss for the financial year** | **(35,888)** | (54,899) |
| Foreign exchange on translation | **957** | (8,981) |
| **Total comprehensive loss for the year** | **(34,931)** | (63,880) |

The accompanying notes form part of these financial statements

**Statement of Financial Position – Assets**
***at 31 December 2020***

| | | **2020** | | 2019 | |
|---|---|---|---|---|---|
| | **Notes** | **£000** | **£000** | £000 | £000 |
| Investments | | | | | |
| Financial investments | 11 | | **511,165** | | 484,988 |
| Deposits with ceding undertakings | | | **261** | | 233 |
| Reinsurers' share of technical provisions | | | | | |
| Provision for unearned premiums | 6 | **23,523** | | 33,926 | |
| Claims outstanding | 6 | **220,367** | | 207,519 | |
| | | | **243,890** | | 241,445 |
| Debtors: | | | | | |
| Amounts due within one year | | | | | |
| Debtors arising out of direct insurance operations | 12 | **76,904** | | 94,759 | |
| Debtors arising out of reinsurance operations | 12 | **34,915** | | 34,042 | |
| Other debtors | 13 | **13,048** | | 12,372 | |
| | | | **124,867** | | 141,173 |
| Amounts due after one year | | | | | |
| Debtors arising out of reinsurance operations | 12 | **1** | | — | |
| | | | **1** | | — |
| Other assets | | | | | |
| Cash at bank and in hand | | **45,215** | | 44,412 | |
| Overseas deposits | | **40,470** | | 30,526 | |
| | | | **85,685** | | 74,938 |
| Prepayments and accrued income | | | | | |
| Accrued interest and rent | | **3,647** | | 4,110 | |
| Deferred acquisition costs | 7 | **28,609** | | 37,828 | |
| Other prepayments and accrued income | | **2,392** | | 2,537 | |
| | | | **34,648** | | 44,475 |
| **Total assets** | | | **1,000,517** | | 987,252 |

The accompanying notes form part of these financial statements

**Statement of Financial Position – Liabilities**
***at 31 December 2020***

| | | 2020 | | 2019 | |
|---|---|---|---|---|---|
| | **Notes** | **£000** | **£000** | £000 | £000 |
| Capital and Reserves | | | | | |
| Member's balance | | | **110,901** | | 142,147 |
| | | | | | |
| Technical provisions | | | | | |
| Provision for unearned premiums | 6 | **153,336** | | 175,803 | |
| Claims outstanding | 6 | **704,764** | | 626,096 | |
| | | | **858,100** | | 801,899 |
| Creditors | | | | | |
| Amounts due within one year | | | | | |
| Creditors arising out of direct insurance operations | 3d | **6,091** | | 12,176 | |
| Creditors arising out of reinsurance operations | 3d | **16,323** | | 19,856 | |
| Other creditors | 3d,14 | **4,212** | | 2,442 | |
| | | | **26,626** | | 34,474 |
| Amounts due after one year | | | | | |
| Creditors arising out of reinsurance operations | 3d | | **3** | | — |
| | | | | | |
| Accruals and deferred income | 3d | | **4,887** | | 8,732 |
| | | | | | |
| **Total liabilities** | | | **1,000,517** | | 987,252 |

The financial statements on pages 21 to 48 were approved by the Board of Navigators Underwriting Agency Limited on 23 February 2021 and were signed on its behalf by

N J Farrer
Director
2 March 2021

The accompanying notes form part of these financial statements

**Statement of Changes in Member's Balances**
***for the year ended 31 December 2020***

| | **2020** | 2019 |
|---|---|---|
| | **£000** | £000 |
| Member's balance brought forward at 1 January | **142,147** | 130,588 |
| Loss for the financial year | **(35,888)** | (54,899) |
| Foreign exchange on translation | **957** | (8,981) |
| Transfer from / (to) Member | **45,116** | (17,746) |
| Other additions to funds in syndicate | **(41,431)** | 93,185 |
| Member's balance carried forward at 31 December | **110,901** | 142,147 |

The accompanying notes form part of these financial statements

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

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating result | | **(35,887)** | (54,899) |
| Increase in gross technical provisions | | **56,202** | 108,268 |
| (Increase) / decrease in reinsurers' share of gross technical provisions | | **(2,444)** | (18,019) |
| Decrease in debtors | | **16,304** | 94,163 |
| Decrease in creditors | | **(7,847)** | (94,510) |
| Movement in other assets/liabilities | | **(3,839)** | 6,292 |
| Investment return | | **(20,945)** | (20,984) |
| Other | | **32,117** | (9,885) |
| **Net cash flows from operating activities** | | **33,661** | 10,426 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of equity and debt instruments | | **(330,366)** | (376,694) |
| Sale of equity and debt instruments | | **281,059** | 272,383 |
| Investment income received | | **12,439** | 15,192 |
| **Net cash flows from investing activities** | | **(36,868)** | (89,119) |
| | | | |
| **Cash flows from financing activities** | | | |
| Transfer from / (to) Member | | **45,116** | (17,746) |
| FIS released to member | | **(41,431)** | — |
| Other additions to funds in syndicate | | **—** | 93,185 |
| **Net cash flows from financing activities** | | **3,685** | 75,439 |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | | **478** | (3,255) |
| Cash and cash equivalents at 1 January | | **44,412** | 46,659 |
| Foreign exchange on cash and cash equivalents | | **325** | 1,008 |
| **Cash and cash equivalents at 31 December** | 15 | **45,215** | 44,412 |

There are no restricted funds within cash and cash equivalents

The accompanying notes form part of these financial statements

**Notes to the Financial Statements at 31 December 2020**

## 1. Basis of preparation

Syndicate 1221 ('the Syndicate') comprises one member of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the Syndicate's Managing Agent is 7-8th Floors, 6 Bevis Marks, London, EC3A 7BA.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom and the Republic of Ireland, including Financial Reporting Standard 102 (FRS 102). FRS 102 requires the application of Financial Reporting Standard 103 (FRS 103) in relation to insurance contracts.

This information is included in the consolidated financial statements of The Hartford Financial Services Group, Inc. as at 31 December 2020, and these financial statements may be obtained from the Syndicate's Managing Agent at the address listed above.

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

The financial statements are presented in Pounds Sterling ("GBP") which is the Syndicate's presentational currency. The Syndicate's functional currency is United States Dollars ("USD"). All amounts have been rounded to the nearest thousand, unless otherwise indicated.

## 2. Accounting policies

### Use of judgements and estimates

In preparing these financial statements, the Directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

***Critical accounting estimates***

Estimates are regularly reviewed and any revisions to accounting estimates are recognised in the period in which the revision has occurred. The most critical accounting estimates are as follows:

***Claims provisions and related recoveries***

The Syndicate's estimates for reported and unreported losses and the resulting provisions and related insurance recoveries are continually monitored and updated based on the latest available information. Adjustments resulting from updated reviews are reflected in the Income Statement. The process relies on the past being a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The estimation of gross outstanding claims is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual settlement of liability remains uncertain.

The most critical gross estimate included within the balance sheet is the estimate for losses incurred but not yet reported ("IBNR"); both gross and reinsurer's share. This estimate is critical as it outlines the current liability for future expenses in relation to claims incurred and related recoveries. The total estimate as at 31 December 2020 is £350.0m (2019: £280.1m) and is included within technical provisions in the balance sheet. The estimate for the reinsurers' share of IBNR is £95.6m (2019: £84.6m).

The Syndicate's estimate for unallocated loss adjusted expenses is based on an actuarial study as at 31 December 2020 and was £3.0m (2019: £3.2m).

**Notes to the Financial Statements at 31 December 2020**
**2. Accounting policies (continued)**

**Use of judgements and estimates (continued)**

***Gross written premiums***
Gross written premiums is a key estimate for the Syndicate as a proportion of the premium income relates to pipeline premiums, which represents future premium receivable on in force insurance contracts.

Pipeline premium estimates are based on underwriters' view of the expected premiums to be generated under the relevant contracts, taking into account the historical performance and prevailing market conditions. Premium of £88.0m was written on this basis in 2020.

***Fair value of assets and liabilities***
In estimating the value of fixed asset securities, fair values are generally based upon quoted market prices. See below and note 11.

***Critical accounting judgements and estimates***

Information about areas of critical judgements in applying accounting policies where applicable is described below. The following accounting policies are considered to have a significant impact on the financial statements:

**Premiums written**

Gross premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified. Premiums are earned on a straight line basis over the life of the contract with the exception of after the event ("ATE") contracts. ATE contracts are earned in full once the outcome of the event is known.

**Unearned premiums**

Written premiums are recognised as earned according to the earnings profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment.

**Reinsurance premium ceded**

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

**Notes to the Financial Statements at 31 December 2020 (continued)**

**2. Accounting policies (continued)**

**Claims provisions and related recoveries**

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of for claims that have been incurred at the reporting date but have not yet been reported ("IBNR") to the Syndicate at the balance sheet date

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's Managing Agent's in-house actuaries and reviewed by external consulting actuaries. These techniques generally involve standard actuarial methods (paid and incurred, chain ladder, Bornhuetter Ferguson and initial expected loss ratios). These project from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

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

**Unexpired risks provision**

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

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

**Acquisition costs**

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

**Foreign currencies**

Income and expenditure in foreign currencies are translated at the average rates of exchange for the period.

Assets and liabilities denominated in foreign currencies are revalued at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

**Notes to the Financial Statements at 31 December 2020 (continued)**
**2. Accounting policies (continued)**

**Foreign currencies (continued)**

All differences arising on revaluation of foreign currency amounts into the functional currency (USD) are included in the profit and loss account and all differences relating to the translation from functional currency to the presentational currency (GBP) are included in the Statement of Other Comprehensive Income.

**Investments**

Investments are stated at current value at the balance sheet date. For this purpose, listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

**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.

For investments at fair value through profit or loss, realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. For investments measured at amortised cost, realised gains and losses represent the difference between the net proceeds on disposal and the latest carrying value (or if acquired after the last reporting date, the purchase price).

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognised unrealised gains and losses in respect of investment disposed of in the current period. Investment return is initially recorded in the non-technical account. The return is transferred in full to the general business technical account to reflect the investment return on funds supporting underwriting business.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position. Bank overdrafts that are repayable on demand and form an integral part of the Syndicate's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**Deposits with ceding undertakings**

Deposits with ceding undertakings are measured at cost less allowance for impairment.

**Notes to the Financial Statements at 31 December 2020 (continued)**
**2. Accounting policies (continued)**

**Identification and measurement of impairment of financial assets**

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

**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 the member or the member's agent is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

**Pension costs**

The Syndicate does not operate any pension schemes. Navigators Management (UK) Limited ("NMUK") operates a defined contribution scheme. Pension contributions relating to NMUK employees working on Syndicate business are charged to the Syndicate as incurred and are included within net operating expenses.

**3. Risk management**

The Board of Directors of the Managing Agent has the responsibility to identify, assess and manage the risks faced by the Syndicate. The Board carries this out through documented strategies and the establishment and maintenance of the Syndicate's Risk Management Framework. The Risk and Compliance Committee, a sub-committee of the Board, meets regularly to assess the effectiveness of this framework, and the Chief Risk Officer

**Notes to the Financial Statements at 31 December 2020 (continued)**
**3. Risk management (continued)**

is tasked with its daily oversight. Within the framework is a number of committees that are responsible for managing risk. These comprise the Reinsurance Security Committee, the Reserving Committee, the Underwriting and Claims Committee, and the Risk Monitoring Committee, as well as the in-house Actuarial function.

**a) Insurance risk**

The Insurance risk faced by the Syndicate is by its very nature unpredictable. The principal causes of insurance risk to the Syndicate are the under-pricing of premiums, under-reserving and the exposure to catastrophe claims.

The table below details the Syndicate's risk exposures by geographical region.

**2020**

| | **Gross Written Premium £000** | **Reinsurance Written Premium £000** | **Net Written Premium £000** |
|---|---|---|---|
| **United Kingdom** | **73,007** | **(13,216)** | **59,791** |
| **EU Countries** | **43,087** | **(7,800)** | **35,287** |
| **USA** | **62,533** | **(11,320)** | **51,213** |
| **Other** | **123,825** | **(22,416)** | **101,409** |
| **Total** | **302,452** | **(54,752)** | **247,700** |

2019

| | Gross Written Premium £000 | Reinsurance Written Premium £000 | Net Written Premium £000 |
|---|---|---|---|
| United Kingdom | 90,099 | (19,594) | 70,505 |
| EU Countries | 38,427 | (8,357) | 30,070 |
| USA | 89,289 | (19,418) | 69,871 |
| Other | 140,832 | (30,628) | 110,204 |
| Total | 358,647 | (77,997) | 280,650 |

The premiums by class are shown in note 4 analysis of underwriting results.

Earned premium is calculated based on the inception and expiry dates, and the profile of exposure of policies written.

Net incurred claims are calculated based on reported claims in the period and the movement in earned IBNR, based on the actuarially calculated ultimate claims reserve.

**Notes to the Financial Statements at 31 December 2020 (continued)**
**3. Risk management (continued)**

### a) Insurance risk (continued)

The following table shows the effect of a five percent increase or decrease in total claims liabilities on profit or loss and equity.

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **5 percent increase** | **5 percent decrease** | 5 percent increase | 5 percent decrease |
| Direct insurance: | | | | |
| Marine | **(3,022)** | **3,022** | (4,929) | 4,929 |
| Transport | **(23)** | **23** | (491) | 491 |
| Energy - Marine | **(1,112)** | **1,112** | (316) | 316 |
| Energy - Non marine | **(650)** | **650** | (58) | 58 |
| Fire and other damage to property | **(4,843)** | **4,843** | (1,377) | 1,377 |
| Third party liability | **(7,205)** | **7,205** | (9,711) | 9,711 |
| Other | **(4,840)** | **4,840** | (958) | 958 |
| | **(21,695)** | **21,695** | (17,840) | 17,840 |
| Reinsurance | **(1,000)** | **1,000** | (1,393) | 1,393 |
| Total | **(22,695)** | **22,695** | (19,233) | 19,233 |

### b) Financial risk

The Syndicate is exposed to a range of financial risks through its financial assets and financial liabilities. The key financial risk is that the proceeds from financial assets will not be sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due.

The main components of financial risk are credit risk, liquidity risk and market risk (as detailed in the Principal risks and uncertainties section). These risks arise from the Syndicate's investment and reinsurance assets and its insurance liabilities.

### c) Credit risk

Credit risk is managed and monitored by the Syndicate's Risk and Compliance Committee.

The table below details the Syndicate's exposure to credit risk by asset type, with reference to the credit rating of the counterparties.

**Notes to the Financial Statements at 31 December 2020 (continued)**
**3. Risk management (continued)**

**c) Credit risk (continued)**

| **2020** | **AAA** | **AA** | **A** | **BBB** | **BB or less** | **Not rated** | **Total** |
|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Financial Investments | | | | | | | |
| Debt securities and other fixed income | **73,381** | **161,422** | **225,641** | **43,947** | **1,149** | **976** | **506,516** |
| Shares and other variable yield securities and unit trusts | **—** | **—** | **—** | **—** | **—** | **4,590** | **4,590** |
| Deposits with credit institutions | **—** | **—** | **—** | **—** | **—** | **59** | **59** |
| | **73,381** | **161,422** | **225,641** | **43,947** | **1,149** | **5,625** | **511,165** |
| Reinsurers' share of the outstanding claims including IBNR | **58,683** | **—** | **156,348** | **—** | **—** | **5,336** | **220,367** |
| Reinsurance debtors | **4,436** | **—** | **20,043** | **—** | **—** | **599** | **25,078** |
| Deposits with ceding undertakings | **—** | **—** | **—** | **—** | **—** | **261** | **261** |
| Overseas deposits | **9,104** | **2,687** | **1,810** | **1,933** | **6,770** | **18,166** | **40,470** |
| Cash at bank and in hand | **—** | **—** | **45,215** | **—** | **—** | **—** | **45,215** |
| **Total credit risk exposure** | **145,604** | **164,109** | **449,057** | **45,880** | **7,919** | **29,987** | **842,556** |

| 2019 | AAA | AA | A | BBB | BB or less | Not rated | Total |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Financial Investments | | | | | | | |
| Debt securities and other fixed Income | 48,859 | 265,154 | 134,219 | 33,589 | 609 | 1,395 | 483,825 |
| Shares and other variable yield securities and unit trusts | — | — | 991 | — | — | — | 991 |
| Deposits with credit institutions | — | — | — | — | — | 172 | 172 |
| | 48,859 | 265,154 | 135,210 | 33,589 | 609 | 1,567 | 484,988 |
| Reinsurers' share of the outstanding claims including IBNR | 29,165 | 21,817 | 154,161 | — | — | 2,376 | 207,519 |
| Reinsurance debtors | 3,931 | 2,455 | 18,349 | — | — | 2,166 | 26,901 |
| Deposits with ceding undertakings | — | — | — | — | — | 233 | 233 |
| Overseas deposits | 9,854 | 2,234 | 1,757 | 1,766 | 2,996 | 11,919 | 30,526 |
| Cash at bank and in hand | — | — | 44,412 | — | — | — | 44,412 |
| **Total credit risk exposure** | 91,809 | 291,660 | 353,889 | 35,355 | 3,605 | 18,261 | 794,579 |

**Notes to the Financial Statements at 31 December 2020 (continued)**
**3. Risk management (continued)**

**c) Credit risk (continued)**

The table below details the Syndicate's assets which are past due but not impaired.

| | **Financial assets that are past due but not impaired** | | | | | |
|---|---|---|---|---|---|---|
| **2020** | **Neither past due nor impaired £000** | **Up to three months £000** | **Three to six months £000** | **Six months to one year £000** | **Greater than one year £000** | **Total £000** |
| Debtors arising out of direct insurance operations | **43,528** | **16,878** | **4,649** | **6,132** | **5,717** | **76,904** |
| Other debtors | **13,048** | **—** | **—** | **—** | **—** | **13,048** |
| **Total** | **56,576** | **16,878** | **4,649** | **6,132** | **5,717** | **89,952** |

| | Financial assets that are past due but not impaired | | | | | |
|---|---|---|---|---|---|---|
| 2019 | Neither past due nor impaired £000 | Up to three months £000 | Three to six months £000 | Six months to one year £000 | Greater than one year £000 | Total £000 |
| Debtors arising out of direct insurance operations | 42,547 | 22,658 | 9,365 | 7,611 | 12,578 | 94,759 |
| Other debtors | 12,372 | — | — | — | — | 12,372 |
| **Total** | 54,919 | 22,658 | 9,365 | 7,611 | 12,578 | 107,131 |

**Notes to the Financial Statements at 31 December 2020 (continued)**
**3. Risk management (continued)**

**d) Liquidity risk**

The table below analyses the Syndicate's monetary assets and liabilities into their relevant maturity groups based on the period remaining at the year end to their contractual maturities or expected settlement dates. Net liabilities in up to one year can be covered by selling investments before their maturity date.

| **2020** | **Up to 1 Year £000** | **1-3 Years £000** | **3-5 Years £000** | **Over 5 years £000** | **Total £000** |
|---|---|---|---|---|---|
| Financial investments | **511,165** | **—** | **—** | **—** | **511,165** |
| Insurance and reinsurance receivables | **111,819** | **1** | **—** | **—** | **111,820** |
| Cash at bank and in hand | **45,215** | **—** | **—** | **—** | **45,215** |
| Net insurance claims outstanding | **(31,791)** | **(253,868)** | **(121,942)** | **(76,796)** | **(484,397)** |
| Creditors | **(26,626)** | **(3)** | **—** | **—** | **(26,629)** |
| Accruals and deferred income | **(4,887)** | **—** | **—** | **—** | **(4,887)** |
| **Total** | **604,895** | **(253,870)** | **(121,942)** | **(76,796)** | **152,287** |

| 2019 | Up to 1 Year £000 | 1-3 Years £000 | 3-5 Years £000 | Over 5 years £000 | Total £000 |
|---|---|---|---|---|---|
| Financial investments | 484,988 | — | — | — | 484,988 |
| Insurance and reinsurance receivables | 128,801 | — | — | — | 128,801 |
| Cash at bank and In hand | 44,412 | — | — | — | 44,412 |
| Net insurance claims outstanding | (18,354) | (218,318) | (104,472) | (77,433) | (418,577) |
| Creditors | (34,474) | — | — | — | (34,474) |
| Accruals and deferred income | (8,732) | — | — | — | (8,732) |
| **Total** | 596,641 | (218,318) | (104,472) | (77,433) | 196,418 |

**e) Market risk**

**Foreign currency market risk**

It is the Syndicate's policy to monitor assets and liabilities in the currencies it is exposed to on a quarterly basis in order to maintain an acceptable level of foreign currency risk.

The following currency exchange rates have been used for principal foreign currency transactions:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Year-end rate** | **Average rate** | Year-end rate | Average rate |
| Euro | **1.101** | **1.126** | 1.171 | 1.149 |
| US dollar | **1.345** | **1.284** | 1.299 | 1.286 |
| Canadian dollar | **1.728** | **1.721** | 1.705 | 1.704 |

**Notes to the Financial Statements at 31 December 2020 (continued)**
**3. Risk management (continued)**

**e) Market risk (continued)**

The table below details the Syndicate's assets and liabilities, in converted Sterling by currency at 31 December 2020:

| **2020** | **GBP £000** | **USD £000** | **CAD £000** | **EUR £000** | **AUD £000** | **OTH £000** | **Total £000** |
|---|---|---|---|---|---|---|---|
| Financial investments | **188,628** | **253,267** | **69,270** | — | — | — | **511,165** |
| Overseas deposits | **(238)** | **3,040** | **11,484** | — | **5,709** | **20,475** | **40,470** |
| Reinsurers' share of technical provisions | **66,215** | **170,286** | **7,389** | — | — | — | **243,890** |
| Insurance and reinsurance receivables | **52,595** | **58,781** | **426** | — | **18** | — | **111,820** |
| Cash and cash equivalents | **12,544** | **24,790** | **4,409** | **3,472** | — | — | **45,215** |
| Other assets | **19,960** | **25,394** | **2,597** | — | — | **6** | **47,957** |
| **Total assets** | **339,704** | **535,558** | **95,575** | **3,472** | **5,727** | **20,481** | **1,000,517** |
| Technical provisions | **300,378** | **522,815** | **34,907** | — | — | — | **858,100** |
| Insurance and reinsurance payables | **9,456** | **12,253** | **710** | — | — | **(2)** | **22,417** |
| Other liabilities | **3,863** | **4,419** | **88** | **313** | **32** | **384** | **9,099** |
| **Total liabilities** | **313,697** | **539,487** | **35,705** | **313** | **32** | **382** | **889,616** |
| **Net assets** | **26,007** | **(3,929)** | **59,870** | **3,159** | **5,695** | **20,099** | **110,901** |

| 2019 | GBP £000 | USD £000 | CAD £000 | EUR £000 | AUD £000 | OTH £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Financial investments | 192,856 | 236,118 | 56,014 | — | — | — | 484,988 |
| Overseas deposits | — | 3,327 | 10,562 | — | 2,650 | 13,987 | 30,526 |
| Reinsurers' share of technical provisions | 76,567 | 156,890 | 7,988 | — | — | — | 241,445 |
| Insurance and reinsurance receivables | 53,342 | 74,133 | 121 | — | 37 | 1,168 | 128,801 |
| Cash and cash equivalents | 19,768 | 14,420 | 5,120 | 5,104 | — | — | 44,412 |
| Other assets | 18,570 | 36,451 | 2,280 | (221) | — | — | 57,080 |
| **Total assets** | 361,103 | 521,339 | 82,085 | 4,883 | 2,687 | 15,155 | 987,252 |
| Technical provisions | 300,111 | 470,765 | 31,023 | — | — | — | 801,899 |
| Insurance and reinsurance payables | 10,987 | 13,961 | 1,223 | 5,861 | — | — | 32,032 |
| Other liabilities | 126 | 7,465 | 3,037 | 452 | 30 | 64 | 11,174 |
| **Total liabilities** | 311,224 | 492,191 | 35,283 | 6,313 | 30 | 63 | 845,105 |
| **Net assets** | 49,879 | 29,148 | 46,802 | (1,430) | 2,657 | 15,091 | 142,147 |

**Notes to the Financial Statements at 31 December 2020 (continued)**
**3. Risk management (continued)**

**e) Market risk (continued)**

**Sensitivity analysis to market risks for financial instruments**

An analysis of the Syndicate's sensitivity to interest rate, currency and other price risk is shown below. The table shows the effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

| | **2020 Profit or loss for the year £000** | 2019 Profit or loss for the year £000 |
|---|---|---|
| **Interest rate risk** | | |
| + 50 basis points shift in yield curves | **(6,935)** | (4,513) |
| -50 basis points shift in yield curves | **5,459** | 4,562 |
| **Currency risk** | | |
| 10 percent increase in GBP/Euro exchange rate | **316** | (143) |
| 10 percent decrease in GBP/Euro exchange rate | **(316)** | 143 |
| 10 percent increase in GBP/US Dollar exchange rate | **(393)** | 2,915 |
| 10 percent decrease in GBP/US Dollar exchange rate | **393** | (2,915) |
| 10 percent increase in GBP/Canadian Dollar exchange rate | **5,987** | 4,680 |
| 10 percent decrease in GBP/Canadian Dollar exchange rate | **(5,987)** | (4,680) |

**f) Fair value estimate**

Financial instruments that are held at fair value through profit or loss are classified using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

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.

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

**Notes to the Financial Statements at 31 December 2020 (continued)**
**3. Risk management (continued)**

**f) Fair value estimate (continued)**

**2020**

| | **Level 1 £000** | **Level 2 £000** | **Level 3 £000** | **Total £000** |
|---|---|---|---|---|
| Debt securities and other fixed income securities | **—** | **506,516** | **—** | **506,516** |
| Shares and other variable yield securities | **—** | **—** | **4,590** | **4,590** |
| Loans and deposits with credit institutions | **—** | **59** | **—** | **59** |
| Total Financial Assets at Fair Value | **—** | **506,575** | **4,590** | **511,165** |

2019

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| Debt securities and other fixed income securities | 2,844 | 480,981 | — | 483,825 |
| Loans and deposits with credit institutions | — | — | 991 | 991 |
| Loans and deposits with credit institutions | — | 172 | — | 172 |
| Total Financial Assets at Fair Value | 2,844 | 481,153 | 991 | 484,989 |

**g) Capital management**

**Framework at Lloyd's**

The Society of Lloyd's ("Lloyd's") is a regulated undertaking and subject to supervision by 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 as a regulated entity complies with Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's sets capital at a syndicate level, Solvency II and Lloyd's capital requirements only apply at an overall and individual member level and not at the syndicate level. Accordingly, the capital requirement in respect of Syndicate 1221 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 for the syndicates on which it participates, but no other member's shares.

**Notes to the Financial Statements at 31 December 2020 (continued)**
**3. Risk management (continued)**

**g) Capital management (continued)**

Accordingly, the capital requirements that Lloyd's sets for each member operates on a similar basis. Each member's SCR is 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 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment ("ECA"). The purpose of this uplift, which is a Lloyd's, not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 was 35% of the member's SCR 'to ultimate'.

**Provision of capital by members**

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

Accordingly all of the assets less liabilities of the Syndicate, as represented in the member's balance reported on the Statement of Financial Position on page 24, represents resources available to meet the member's and Lloyd's capital requirements.

**4. Analysis of underwriting results**

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

| 2020 | Gross written premiums £000 | Gross premiums earned £000 | Gross claims incurred £000 | Net operating expenses £000 | Ceded balance £000 | Total £000 |
|---|---|---|---|---|---|---|
| Direct insurance: | | | | | | |
| Marine | **20,722** | **22,692** | **(17,761)** | **(6,449)** | **1,181** | **(337)** |
| Transport | **29,009** | **30,182** | **(14,011)** | **(13,180)** | **(1,147)** | **1,844** |
| Energy - marine | **43,079** | **41,174** | **(25,523)** | **(14,586)** | **(48)** | **1,017** |
| Energy - non marine | **2,217** | **7,666** | **(1,888)** | **(1,852)** | **(2,989)** | **937** |
| Fire and other damage to property | **36,256** | **42,640** | **(41,034)** | **(13,496)** | **(394)** | **(12,284)** |
| Third party liability | **104,561** | **114,938** | **(115,708)** | **(34,611)** | **4,051** | **(31,330)** |
| Pecuniary Loss | **3,606** | **485** | **(423)** | **(1,467)** | **(61)** | **(1,466)** |
| | **239,450** | **259,777** | **(216,348)** | **(85,641)** | **593** | **(41,619)** |
| Reinsurance | **63,002** | **61,412** | **(56,552)** | **(14,270)** | **(3,868)** | **(13,278)** |
| Total | **302,452** | **321,189** | **(272,900)** | **(99,911)** | **(3,275)** | **(54,897)** |

**Notes to the Financial Statements at 31 December 2020 (continued)**
**4. Analysis of underwriting results (continued)**

| 2019 | Gross Written premiums £000 | Gross premiums earned £000 | Gross claims incurred £000 | Net operating expenses £000 | Ceded balance £000 | Total £000 |
|---|---|---|---|---|---|---|
| Direct insurance: | | | | | | |
| Marine | 24,464 | 27,745 | (19,220) | (9,536) | (2,363) | (3,374) |
| Transport | 39,616 | 40,669 | (29,206) | (15,935) | (3,369) | (7,841) |
| Energy - marine | 39,760 | 39,577 | (14,780) | (12,393) | (8,534) | 3,870 |
| Energy - non marine | 13,856 | 16,433 | (35,249) | (1,288) | 11,448 | (8,656) |
| Fire and other damage to property | 49,101 | 52,094 | (16,511) | (15,343) | (10,607) | 9,633 |
| Third party liability | 163,779 | 155,448 | (184,433) | (49,908) | 24,163 | (54,730) |
| | 330,576 | 331,966 | (299,399) | (104,403) | 10,738 | (61,098) |
| Reinsurance | 28,071 | 28,746 | (32,140) | (5,866) | (1,204) | (10,464) |
| Total | 358,647 | 360,712 | (331,539) | (110,269) | 9,534 | (71,562) |

All premiums were concluded in the UK.

**5. Claims outstanding**

The surpluses / (deficits) following the reassessment of claims outstanding held at the end of the previous year are set out below.

| | **2020 £000** | 2019 £000 |
|---|---|---|
| Marine, aviation and transport | **(31)** | (396) |
| Energy | **(1,904)** | (302) |
| Fire and other damage to property | **(2,940)** | 6,406 |
| Third party liability | **(17,019)** | (36,021) |
| Total direct | **(21,894)** | (30,313) |
| Reinsurance acceptance | **(14,103)** | (11,648) |
| | **(35,997)** | (41,961) |

The FRS 103 transitional provision has been applied, which allows the Syndicate not to disclose information about claims development that occurred earlier than 5 years before the end of the first financial year in which FRS 103 is applied.

**Notes to the Financial Statements at 31 December 2020 (continued)**
**5. Claims outstanding (continued)**

Claims development is shown in the table below both gross and net of reinsurance ceded, on a pure underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2020 in all cases.

| **Pure Underwriting Year** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate gross claims** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| at end of underwriting year | 75,055 | 84,978 | 80,032 | 106,346 | 129,186 | 94,329 | 95,432 | 92,774 | |
| one year later | 139,155 | 151,520 | 181,770 | 224,069 | 236,326 | 239,805 | 199,037 | - | |
| two years later | 134,997 | 162,968 | 174,170 | 222,402 | 256,671 | 253,527 | - | - | |
| three years later | 119,620 | 164,934 | 190,324 | 234,381 | 261,639 | - | - | - | |
| four years later | 121,698 | 174,610 | 208,362 | 259,479 | - | - | - | - | |
| five years later | 122,183 | 197,905 | 203,066 | - | - | - | - | - | |
| six years later | 122,104 | 197,908 | - | - | - | - | - | - | |
| seven years later | 136,106 | - | - | - | - | - | - | - | |
| Less gross claims paid | (108,943) | (167,852) | (163,509) | (182,020) | (155,114) | (111,158) | (43,383) | (6,995) | |
| **Gross ultimate claims reserve** | 27,163 | 30,056 | 39,557 | 77,459 | 106,525 | 142,369 | 155,654 | 85,779 | 664,562 |
| Gross ultimate claims reserve for 2012 & prior years | | | | | | | | | 40,202 |
| **Gross claims reserves** | | | | | | | | | **704,764** |

| **Pure Underwriting Year** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate net claims** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| at end of underwriting year | 46,762 | 52,453 | 55,406 | 75,400 | 83,414 | 66,879 | 93,112 | 75,192 | |
| one year later | 88,172 | 97,532 | 124,922 | 148,851 | 161,803 | 150,396 | 159,271 | - | |
| two years later | 85,495 | 107,234 | 123,685 | 150,030 | 171,431 | 175,816 | - | - | |
| three years later | 77,491 | 107,348 | 132,994 | 159,394 | 179,924 | - | - | - | |
| four years later | 76,803 | 112,695 | 141,478 | 174,950 | - | - | - | - | |
| five years later | 76,170 | 128,420 | 137,703 | - | - | - | - | - | |
| six years later | 76,474 | 130,163 | - | - | - | - | - | - | |
| seven years later | 80,397 | - | - | - | - | - | - | - | |
| Less net claims paid | (68,966) | (110,065) | (116,378) | (123,121) | (111,113) | (86,703) | (36,746) | (6,148) | |
| **Net ultimate claims reserve** | 11,431 | 20,098 | 21,325 | 51,829 | 68,811 | 89,113 | 122,525 | 69,044 | 454,175 |
| Net ultimate claims reserve for 2012 & prior years | | | | | | | | | 30,223 |
| **Net claims reserves** | | | | | | | | | **484,398** |

**Notes to the Financial Statements at 31 December 2020 (continued)**

## 6. Technical provisions

The table below shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Gross Provisions £000** | **Reinsurance Assets £000** | **Net £000** | Gross Provisions £000 | Reinsurance Assets £000 | Net £000 |
| **Incurred claims outstanding** | | | | | | |
| Claims notified | **346,008** | **(122,924)** | **223,084** | 306,480 | (105,025) | 201,455 |
| Claims incurred but not reported | **280,088** | **(84,595)** | **195,493** | 209,600 | (73,163) | 136,437 |
| Balance at 1 January | **626,096** | **(207,519)** | **418,577** | 516,080 | (178,188) | 337,892 |
| Change in prior year provisions | **187,121** | **(44,567)** | **142,554** | 51,449 | (14,445) | 37,004 |
| Expected cost of current year claims | **85,779** | **(16,738)** | **69,041** | 280,088 | (84,597) | 195,491 |
| Claims paid during the year | **(176,264)** | **43,085** | **(133,179)** | (212,482) | 66,607 | (145,878) |
| Effects of movements in exchange rates | **(17,968)** | **5,372** | **(12,596)** | (9,039) | 3,107 | (5,932) |
| Balance as at 31 December | **704,764** | **(220,367)** | **484,397** | 626,096 | (207,519) | 418,577 |
| | | | | | | |
| Claims notified | **354,768** | **(124,812)** | **229,956** | 346,008 | (122,924) | 223,084 |
| Claims incurred but not reported | **349,996** | **(95,555)** | **254,441** | 280,088 | (84,595) | 195,493 |
| Balance at 31 December | **704,764** | **(220,367)** | **484,397** | 626,096 | (207,519) | 418,577 |
| | | | | | | |
| **Unearned Premiums** | | | | | | |
| Balance at 1 January | **175,803** | **(33,926)** | **141,877** | 177,550 | (45,237) | 132,313 |
| Premiums Written during the year | **302,452** | **(54,752)** | **247,700** | 358,647 | (77,997) | 280,650 |
| Premiums earned during the year | **(321,189)** | **64,580** | **(256,609)** | (360,712) | 89,509 | (271,203) |
| Effects of exchange rates | **(3,730)** | **575** | **(3,155)** | 318 | (201) | 117 |
| | **153,336** | **(23,523)** | **129,813** | 175,803 | (33,926) | 141,877 |

## 7. Net operating expenses

Administrative expenses include:

| | **2020 £000** | 2019 £000 |
|---|---|---|
| Acquisition costs | **61,748** | 84,015 |
| Change in deferred acquisition costs | **5,315** | (2,172) |
| Administrative expenses | **30,950** | 33,890 |
| Standard Personal Expenses | **7,657** | 8,018 |
| Reinsurance commissions and profit participations | **(5,747)** | (13,482) |
| | **99,923** | 110,269 |

**Notes to the Financial Statements at 31 December 2020 (continued)**
**7. Net operating expenses (continued)**

The table below shows changes in deferred acquisition costs assets from the beginning of the period to the end of the period.

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Balance at 1 January | **37,828** | 38,524 |
| Incurred costs deferred | **65,475** | 91,018 |
| Amortisation | **(74,694)** | (91,714) |
| Balance at 31 December | **28,609** | 37,828 |

Administrative expenses include:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Auditor's remuneration | | |
| Fees payable to the Syndicate's auditor for the audit of these financial statements | **218** | 150 |
| Fees payable to the Syndicate's auditor and its associates in respect of: other services pursuant to legislation | **155** | 135 |
| | **373** | 285 |

## 8. Staff numbers and costs

The Syndicate does not directly employ any staff. All employees engaged on Syndicate business are employed by Navigators Management (UK) Limited ("NMUK") that charges the Syndicate with a single management fee for its share of group expenses. This fee is included within net operating expenses. The charge from NMUK to the Syndicate does not specifically identify the cost of employees or directors. Details of staff costs and numbers of the Syndicate are included within the financial statements of NMUK.

## 9. Emoluments of the Directors of Navigators Underwriting Agency Limited

The Directors of Navigators Underwriting Agency Limited received the following aggregate remuneration charged to the Syndicate and are included within net operating expenses:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Emoluments | **818** | 756 |
| Pension costs | **83** | 44 |
| | **901** | 800 |

**Notes to the Financial Statements at 31 December 2020 (continued)**
**9. Emoluments of the Directors of Navigators Underwriting Agency Limited (continued)**

As at 31 December 2020 there were 3 Directors (2019: 3) in the defined contribution scheme operated by NMUK.

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

| | **2020** | 2019 |
|---|---|---|
| | **£000** | £000 |
| Emoluments | **248** | 211 |
| Pension costs | **36** | 31 |
| | **284** | 242 |

## 10. Investment income

| | **2020** | 2019 |
|---|---|---|
| | **£000** | £000 |
| Investment income | | |
| Income from investments at fair value through profit or loss | **7,036** | 6,477 |
| Gains on the realisation of investments designated on initial recognition at fair value through profit or loss | **1,059** | 1,642 |
| Losses on the realisation of investments designated on initial recognition at fair value through profit or loss | **(528)** | (295) |
| | **7,567** | 7,824 |

The table below presents the average amounts of funds in the year per currency and analyses by major currency the average investment yields in the year.

| | **2020** | 2019 |
|---|---|---|
| | **£000** | £000 |
| Average amount of Syndicate funds available for investment during the year | | |
| Canadian | **69,944** | 60,553 |
| US dollar | **241,469** | 331,392 |
| Total funds available for investment, in sterling | **311,413** | 391,945 |
| Total investment return | **12,514** | 10,256 |
| Annual investment yield | | |
| Canadian | **4.58%** | 4.13% |
| US dollar | **3.85%** | 2.24% |
| Total annual investment yield, in sterling | **4.02%** | 2.62% |

**Notes to the Financial Statements at 31 December 2020 (continued)**

## 11. Financial investments

| | Market value | | Cost | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **£000** | £000 | **£000** | £000 |
| Shares and other variable yield securities | **4,590** | 991 | **4,554** | 991 |
| Debt securities and other fixed income securities | **506,516** | 483,825 | **495,681** | 481,205 |
| Deposits with credit institutions | **59** | 172 | **59** | 172 |
| | **511,165** | 484,988 | **500,294** | 482,368 |

## 12. Debtors arising out of direct insurance and reinsurance operations

Of the debtors arising out of direct insurance and reinsurance operations, the whole amount is due from intermediaries.

## 13. Other Debtors

| | **2020** | 2019 |
|---|---|---|
| | **£000** | £000 |
| Overseas Federal Tax | **115** | 201 |
| Amounts owed by group undertakings | **12,506** | 11,675 |
| VAT recoverable | **—** | 2 |
| Sundry Debtors | **427** | 494 |
| | **13,048** | 12,373 |

## 14. Other Creditors

| | **2020** | 2019 |
|---|---|---|
| | **£000** | £000 |
| Amounts owed to group undertakings | **4,011** | 2,189 |
| Sundry Creditors | **201** | 253 |
| | **4,212** | 2,442 |

**Notes to the Financial Statements at 31 December 2020 (continued)**

**15. Cash and cash equivalents**

| | 2020 | 2019 |
|---|---|---|
| | **£000** | £000 |
| Cash at bank and in hand | **45,215** | 44,412 |
| **Total cash and cash equivalents** | **45,215** | 44,412 |

**16. Related parties**

The ultimate parent company and controlling member is The Hartford Financial Services Group, Inc., which is incorporated in the USA.

The immediate parent company of Navigators Underwriting Agency Limited is Navigators Holdings (UK) Limited.

All trading with Companies within The Hartford Financial Services Group, Inc. have been carried out on an arm's length basis.

A number of third party reinsurance contracts that cover both the Syndicate and related group companies were purchased in the year by the Navigators Insurance Company and The Hartford Fire Insurance Company. The Syndicate is allocated its proportionate share of cost of these contracts which is agreed by local management.

The Syndicate paid Managing Agency fees to Navigators Underwriting Agency Limited during the year. Total fees incurred, in respect of services provided, amounted to £5.3m (2019: £5.1m). At the year end, the amount owing from Navigators Underwriting Agency Limited was £6.2m (2019: 0.0m)

The Syndicate was recharged expenses of £25.9m (2019: £27.9m) from Navigators Management UK Limited during the year. ). At the year end, the amount owing from Navigators Management UK Limited was £6.1m (2019: 9.2m)

The Syndicate was recharged expenses of £0.7m (2019: £1.2m) from Navigators Management Company during the year. ). At the year end, the amount owing to Navigators Management Company was £1.7m (2019: 1.4m)

Navigators Asia Limited ("NAL") charged a fee of £1.6m (2019: £2.4m) to the Syndicate during the year. The fee is based on expenses incurred by NAL plus a mark-up of 10% in respect of underwriting services provided by NAL. ). At the year end, the amount owing to NAL was £0.4m (2019: 0.0m)

**17. Part VII**

On 30 December 2020, the Syndicate transferred its EEA non-life insurance policies written between 1993 and 2020 to Lloyd's Insurance Company S.A. ('Lloyd's Brussels') pursuant to Part VII of the Financial Services and Markets Act 2000. The value of the net liabilities transferred was $92.5m. The Syndicate transferred cash of the same amount to Lloyd's Brussels. Lloyd's Brussels subsequently reinsured the same liabilities back to the Syndicate on the same day. The reinsurance premium received was of the same amount of $92.5m. There was no gain or loss arising on either transaction.

**Notes to the Financial Statements at 31 December 2020 (continued)**
**17. Part VII (continued)**

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

On the balance sheet, certain policy-level balances impacted by the transfer that were previously reflected as amounts arising from direct insurance operations, have been reclassified to amounts arising from inwards reinsurance business.

The transaction has no impact on Member's balance.

**18. Funds at Lloyd's**

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL considers a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the 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 member's FAL to meet liquidity requirements or to settle losses.