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Syndicate 623 at Lloyd's

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Beazley Furlonge Limited | Syndicate 623 at Lloyd's
Annual report 2018

Sustaining growth

Welcome to our Annual report 2018

Contents

Sustaining growth requires sustained investment. The strong growth in syndicate premium during 2018 was the result of continuous investment in our people, technology and global office network over many years. This investment continues.

Highlights

Syndicate capacity
£351.0m
(2017: £304.5m)

Claims ratio
57%
(2017: 59%)

Gross premiums written
$478.2m
(2017: $432.7m)

Expense ratio
39%
(2017: 41%)

Net premiums written
$404.3m
(2017: $359.0m)

Combined ratio
96%
(2017: 100%)

Earned premiums, net of reinsurance
$380.2m
(2017: $336.1m)

Cash and investments
$595.2m
(2017: $673.0m)

Profit for the financial year
$9.1m
(2017: $12.5m)

Annualised investment return
0.6%
(2017: 2.7%)

Renewal rate increase
3%
(2017: decrease 1%)

Strategic report of the managing agent

Overview

The syndicate's balanced portfolio, which has underpinned its consistent underwriting performance in recent years, meant it was able to weather the natural catastrophe events of 2018 and achieve a profit for the year of $9.1m (2017: $12.5m). The syndicate has also benefited from effective cycle management over the past few years, reducing its exposure to catastrophe business, with its risk budget decreasing from $125m in 2013 to $89m in 2018. The risk budget will remain at $89m on the 2019 underwriting year. Gross premiums written increased to $478.2m (2017: $432.7m).

The capacities of the managed syndicates are as follows:

	2018 £m	2017 £m
2623	1,554.0	1,349.7
623	**351.0**	304.5
3623	213.0	215.0
6107	55.1	46.6
3622	23.0	19.5
5623	22.5	-
6050	-	14.6
Total	**2,218.6**	**1,949.9**

Year of account results

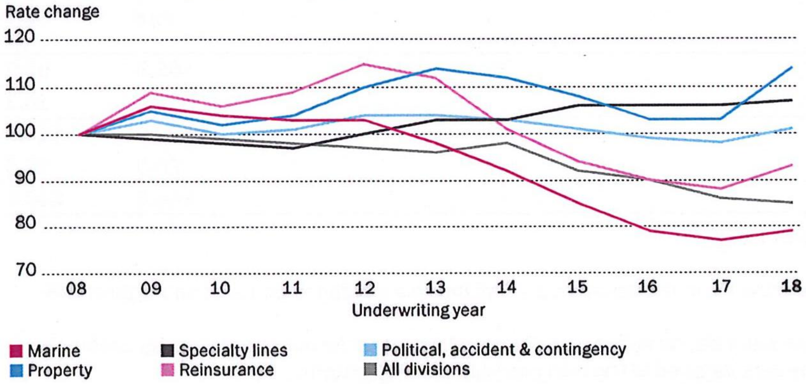
We are pleased to declare a return on capacity of 8.7% for the 2016 underwriting year. The 2017 underwriting year currently forecasts to close with a breakeven position, due in the main to the adverse claims experience as a result of the 2017 natural catastrophe events. The 2018 underwriting year, which is still in its early stages of development, has been impacted by losses, namely Hurricanes Florence and Michael as well as Typhoons Jebi and Trami and the Californian wildfires.

Rating environment

The catastrophe loss activity during 2017 had a positive effect on the rating environment with rates increasing by 3% in 2018 across the portfolio (2017: decrease of 1%). Most of our lines of business saw increases in rates compared to 2017, with marine increasing by 3%, property increasing by 10%, reinsurance rates increasing by 6% and specialty lines increasing 1%. However, rates on renewals in our political, accident & contingency division decreased by 1%.

An overview of the syndicate's performance by division is presented between pages 6 and 11.

Cumulative renewal rate changes since 2008 (%)



Combined ratio

The combined ratio of an insurance provider is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. The syndicate's combined ratio has decreased in 2018 to 96% (2017: 100%). The calculation of the combined ratio for the syndicate includes all claims and other costs of the syndicate but excludes foreign exchange gains or losses. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not.

Claims

The syndicate experienced a number of natural catastrophes in 2018 with Hurricanes Florence and Michael as well as Typhoons Jebi and Trami and the Californian wildfires. The claims on these events, while large, were not outside of expectation for such types of natural catastrophes. Total net insurance claims increased to $218.4m in 2018 (2017:$197.7m). The claims ratio of an insurance provider is a measure of the claims experience and represents the ratio of its net insurance claims to net earned premium. The syndicate's claims ratio reduced to 57% in 2018 (2017:59%).

Prior year reserve releases

The syndicate has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 5% at the end of 2018 (2017: 5%). As the overall margin is at the lower end of the range that management target, reserve releases in 2019 may be slightly lower than those over the last three years. However, it is important to recognise that while there is strong correlation between the level of margin and future reserve releases, current year developments can also affect releases either positively or negatively.

Reserve monitoring is performed at a quarterly 'peer review', which involves a challenge process contrasting the claims reserves of underwriters and claim managers, who make detailed claim-by-claim assessments, and the actuarial team, who provide statistical analysis. This process allows early identification of areas where claims reserves may need adjustment.

During 2018, we have been able to release prior year reserves of $25.1m (2017: $39.7m). These reserve releases are shown by division in the table below:

	2018 $m	2017 $m
Marine	3.0	2.4
Political, accident & contingency	1.5	0.4
Property	(10.6)	3.0
Reinsurance	5.3	12.1
Specialty lines	25.9	21.8
Total	**25.1**	**39.7**
Releases as a percentage of net earned premium	6.6%	11.8%

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses increased from $139.1m to $146.6m in 2018. The breakdown of these costs is shown below:

	2018 $m	2017 $m
Brokerage costs	108.3	99.9
Other acquisition costs	12.3	10.6
Total acquisition costs	**120.6**	**110.5**
Administrative and other expenses	26.0	28.6
Net operating expenses[1]	**146.6**	**139.1**

1 A further breakdown of net operating expenses can be seen in note 4.

Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines.

Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns.

Administrative expenses comprise primarily IT costs, staff costs, facilities costs, Lloyd's central costs and other support costs.

The expense ratio of an insurance provider is a measure of the net operating expenses to net earned premium. The expense ratio for 2018 is 39% (2017: 41%).

Strategic report of the managing agent continued

Investment performance

2018 proved to be a difficult year for investments and many asset classes have produced negative returns. Whilst our absolute return was disappointing, most of the portfolio performed well relative to its benchmarks and the management actions of Stuart Simpson and his team had a positive effect at the margin. US interest rates were increased four times as the Federal Reserve continued to reverse the easing monetary policies of recent years and officials indicated that interest rates would continue to rise through 2019. As a result US bond yields rose throughout most of the year, generating capital losses on these securities. These developments, combined with continuing tensions over international trade and signs that global economic growth may be slowing, has led to growing pessimism about prospects for global economic activity, culminating in a significant correction in risk asset values, including equities and credit, in the final quarter of the year.

We reduced exposure to more volatile capital growth investments from 16.0% to 11.6% of assets during the year, which was beneficial as these exposures produced a negative return in this period, with equities the worst performing asset class as the global equity index declined by more than 7%: We cut equity exposure from 5.5% to 1.7% of assets during the period. Our fixed income investments grew from 84.0% to 88.3% of assets in 2018 and this portfolio returned 1.1%, held back by rising interest rates and widening credit spreads, but helped by the significant decline in US bond yields during December. The overall investment return for the year ending 31 December 2018 was 0.6%, or $3.5m (2017: 2.7%, $18.1m).

At 31 December 2018, the weighted average duration of fixed income investments was 1.7 years (2017: 1.1 years). Rising yields in 2018 have increased the average yield of fixed income investments to 3.3% and this should support better investment returns in future periods.

The table below details the breakdown of our portfolio by asset class:

	31 Dec 2018		31 Dec 2017	
	$m	%	$m	%
Cash at bank and in hand	18.5	3.1	27.7	4.1
Fixed and floating rate debt securities				
- Government, quasi-government and supranational	195.0	32.7	248.6	36.9
- Corporate bonds				
– Investment grade credit	287.5	48.3	280.6	41.7
– High yield	3.5	0.6	7.0	1.1
- Senior secured loans	–	–	–	–
Derivative financial assets	1.2	0.2	1.6	0.2
Core portfolio	505.7	84.9	565.5	84.0
Equity linked funds	30.2	5.1	36.8	5.5
Hedge funds	56.5	9.5	67.9	10.1
Illiquid credit assets	2.9	0.5	2.8	0.4
Total capital growth assets	89.6	15.1	107.5	16.0
Total	**595.3**	**100.0**	**673.0**	**100.0**

Comparison of return by major asset class:

	31 Dec 2018		31 Dec 2017	
	$m	%	$m	%
Core portfolio	6.0	1.1	9.7	1.7
Capital growth assets	(2.5)	(2.8)	8.4	9.2
Overall return	**3.5**	**0.6**	**18.1**	**2.7**

Reinsurance

In 2018, the amount spent on outward reinsurance was $73.9m (2017: $73.7m).

Reinsurance is purchased for a number of reasons:
- to mitigate the impact of catastrophes such as hurricanes;
- to enable the syndicate to put down large, lead lines on risks we underwrite; and
- to manage capital to lower levels.

Solvency II

The Solvency II regime came into force on 1 January 2016. Beazley continues to provide Solvency II pillar 3 reporting to Lloyd's for the syndicate. Under Solvency II requirements, the syndicate is required to produce a Solvency Capital Requirement (SCR) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews the syndicate's proposed SCR each year in conjunction with the syndicate's business plan.

Solvency capital requirement

The current SCR has been established using our Solvency II approved internal model which has been run within the regime as prescribed by Lloyd's. In order to perform the capital assessment, we have made significant investments in both models and process:
- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk/reward profile of the business and allows teams to focus on strategies that improve return on capital.

Outlook

Due in the main to the effects of the 2017 natural catastrophe events, the 2017 YOA is forecast to close with a mid point breakeven return on capacity.

The 2018 underwriting year has been impacted by a large number of natural catastrophes. However we have already seen rate increases in the latter part of 2018 and early 2019 across our property and treaty books as the market recalibrates its pricing of catastrophe exposed risks.

While market conditions may improve across some of our product lines in 2019, the syndicate's core underwriting philosophy remains stable. Our underwriting approach of exercising discipline across a diverse portfolio of specialist insurance products, particularly in lines of business where competitive pressures are strongest, will remain a key component of our underwriting strategy.

A P Cox
Active underwriter

8 March 2019

Strategic report of the managing agent continued

Marine

	2018 $m	2017 $m
Gross premiums written	61.1	58.5
Net premiums written	54.6	50.9
Earned premiums, net of reinsurance	54.3	49.5
Claims incurred, net of reinsurance	(29.0)	(27.1)
Net operating expenses	(21.3)	(21.4)
Technical result	**4.0**	**1.0**
Claims ratio	53%	55%
Expense ratio	39%	43%
Combined ratio	92%	98%
Renewal rate change	3%	(3%)

Premium rates for much of the business underwritten in the syndicate's marine division started to rise last year, enabling the division to achieve a combined ratio of 92% on premiums of $61.1m (2017: 98% on premium of $58.5m), but competition remained intense.

Lloyd's 'decile 10' initiative, through which Lloyd's syndicates were asked in 2018 to submit remediation plans for the worst-performing 10% of business lines in their portfolios, has had a significant effect on the marine market. After several years of competition that drove the combined ratios of many syndicates well into triple digits, we saw a number of syndicates withdrawing from marine hull, cargo and aviation business. Hull, cargo and aviation rates have recently increased materially.

The hull market was significantly impacted by one major loss after the superyacht Sassi caught fire while under construction at the Lürssen shipyard in Bremen in northern Germany in September. We expect the loss to contribute further to rising premium rates in this market.

The syndicate is well positioned in this context, achieving consistent underwriting profitability within the marine division over the past ten years and accounting for a quarter of the entire Lloyd's marine market's total profits between 2013 and 2017.

Two smaller lines of business - marine and aviation war risks and satellite business - made good contributions to our overall profitability in 2018, although we have seen the war risks account shrink steadily in recent years. Aviation business, another relatively small component of the division's total portfolio, has begun at last to see meaningful rate rises after the withdrawal of capacity by a number of our competitors.

Political factors, such as tariffs on trade between the US and China, could potentially have a material effect on the volume of goods transported by our clients and thus on demand for hull and cargo cover, but we have yet to see any impact from such trade tensions.

We had also seen our larger energy account reduce in size under the pressure of falling rates and a declining oil price from 2012, but this trend was reversed in 2018 as the rating environment began to improve. Rising energy prices during much of the year also stimulated an uptick in exploration activity, benefiting our sub-sea team which insures the equipment used in offshore oil and gas exploration. For 2019 we plan to grow our energy business as well as our hull and machinery account.

Political, accident & contingency

	2018 $m	2017 $m
Gross premiums written	29.8	25.3
Net premiums written	25.3	20.7
Earned premiums, net of reinsurance	23.1	19.1
Claims incurred, net of reinsurance	(8.8)	(8.5)
Net operating expenses	(9.4)	(9.4)
Technical result	**4.9**	**1.2**
Claims ratio	38%	45%
Expense ratio	41%	49%
Combined ratio	79%	94%
Renewal rate change	(1%)	(4%)

All of the lines of business comprising the political, accident & contingency (PAC) division performed well in 2018, generating an improved combined ratio for the division of 79% (2017: 94%) on premiums that grew by 18% to $29.8m (2017: $25.3m).

Many of the lines of business in which we specialise, including political risks, terrorism and contingency, are historic areas of focus for the London market and we continue to write the bulk of our business in London. However we also have local teams in the US, Europe and Singapore to access business we would not normally see in London, including the fast growing market for supplemental health insurance solutions for company employees in the US.

Our political risks team had a good year with premium growth of 11% and a far more benign claims environment than we had witnessed in 2017. Only about a third of political risk accounts are renewable so we depend on brokers to bring our teams a steady flow of new business. However as political tensions rise in many parts of the world, we expect demand for cover to remain strong. Our practice is to reserve prudently for claims, and if the claims do not fully materialise this enables us to make reserve releases in later years: in 2018 we were able to release funds no longer required to meet political risks and trade credit claims on the 2016 and prior underwriting years

The terrorism market continued to see premium rates decline in 2018, but at a slower rate than in previous years, due to the relative rarity of attacks that result in widespread physical damage. The potential for such attacks of course continues to exist but in recent years terrorists have sadly tended to target people more than property. Attacks of any kind can have a chilling effect on local businesses and we have accordingly been offering loss of attraction cover to companies that may find their business affected by a nearby incident.

Terrorism, or the threat thereof, is also a peril covered by our contingency team, which offers broad cancellation cover for events of widely varying sizes, including some of the world's largest sports and entertainment events. The team had a good year with premium growth of 25%. Our London team, the largest and most experienced in the market, focuses predominantly on large scale events whereas our US underwriters also underwrite a large volume of smaller risks.

In April 2018 in the US we launched a new version of our WeatherGuard policy for weather-related event cancellation risks, offering each policyholder a fully personalised digital policy that can be consulted on a phone. The easy to use digital policy, which also offers automatic claims payment in the event that the insured weather peril occurs, has been very well received by brokers and clients

Strategic report of the managing agent continued

Property

	2018 $m	2017 $m
Gross premiums written	91.2	79.4
Net premiums written	79.1	65.7
Earned premiums, net of reinsurance	76.0	63.4
Claims incurred, net of reinsurance	(63.6)	(54.9)
Net operating expenses	(31.7)	(28.7)
Technical result	**(19.3)**	**(20.2)**
Claims ratio	84%	87%
Expense ratio	42%	45%
Combined ratio	126%	132%
Renewal rate change	10%	-

Adverse claims experience made 2018 a challenging year for property insurers while ushering in a more favourable pricing environment. The syndicate saw the cost of previous year's catastrophes, notably Hurricane Irma, rise and combine with fresh losses from Hurricanes Michael and Florence in the US. Attritional losses also continued at a higher rate than in recent years.

As a result we experienced a very high combined ratio of 126% (2017: 132%). This was the second year in a row where a combined ratio over 100% was seen, but after two years of severe claims the strain is telling on the broader market. We have seen more than a dozen Lloyd's businesses withdraw from direct and facultative property business altogether or sharply curtail their exposures.

In light of the scale of the market losses it is not surprising that we saw significant rate rises on renewal business this year Rates for our large risk open market property team in London rose by 18% and we saw rates rise across the entirety of our portfolio by 10%.

These rate rises have made for a healthier pricing environment after several years of price erosion. We wrote 15% more business in 2018 than the previous year.

We also started re-underwriting the business in our large risk property book at the end of 2017 and the expectation is that both this and the rate increases should contribute to an improved profitability in 2019 and beyond.

The large risk property business we underwrite in London was most affected by the catastrophe losses of the past two years and increased attritional activity, but other segments of our portfolio were also impacted by increased claims experience. Our small business team led by Paul Bromley writes a large volume of business through binding authorities granted to Lloyd's coverholders around the world. In recent months we have cancelled some of these binders with coverholders in North America, as they failed to meet our profitability requirements.

Further more, in October 2018 we took the difficult decision to exit the market for construction and engineering business around the world, transacted through teams in London, the US (where the business is known as builders' risk), Singapore and Latin America. This business accounted for approximately 9%, or $7.4m, of our property division's premiums in 2017. After careful analysis, we concluded it was unlikely to satisfy our cross-cycle profitability requirements in the foreseeable future.

We will of course honour the commitments we have made to our brokers and clients as we run off our existing construction and engineering book in a professional and orderly manner, but we have ceased underwriting new business. This decision affects only property risks and has no bearing on the construction liability business that our colleagues in the syndicate's specialty lines division continue to write.

London remains our largest underwriting location but we have continued to see strong growth in the business we write locally in the US. This business – which comprises mid-market commercial property risks underwritten on a surplus lines basis, a portfolio of homeowners' business in catastrophe exposed locations, and some large risk commercial accounts– grew 2% last year, contributing to the strong premium growth of the syndicate's operations.

Reinsurance

	2018 $m	2017 $m
Gross premiums written	45.5	45.5
Net premiums written	30.2	29.6
Earned premiums, net of reinsurance	30.7	29.9
Claims incurred, net of reinsurance	(21.2)	(21.4)
Net operating expenses	(10.2)	(11.1)
Technical result	**(0.7)**	**(2.6)**
Claims ratio	69%	72%
Expense ratio	33%	37%
Combined ratio	102%	109%
Renewal rate change	6%	(2%)

Two of the major perils that drove our claims experience in 2017 – hurricanes and wildfires – recurred in 2018, resulting in a combined ratio for the year of 102% (2017: 109%) on premiums of $45.5m (2017: $45.5m).

Beazley has provided consistent reinsurance support to clients in Japan for more than three decades and we accordingly incurred a share of the reinsurance losses from Typhoon Jebi in September, the most severe storm to make landfall in Japan since 1993, and from Typhoon Trami, which hit the south of the country a few weeks later.

Also in September, Hurricane Florence came ashore in North Carolina, triggering massive flood damage over a wide area. The following month, Hurricane Michael became the strongest storm ever to hit the Florida panhandle, with wind speeds of 155 mph. For our reinsurance book, Michael was the more expensive storm, generating reinsurance losses of about half those of Hurricane Irma in 2017.

In aggregate, we incurred an estimated $9m in reinsurance losses from the storms in Japan and the US in 2018. Total market losses for the Japanese typhoons are estimated at between $10bn and $12bn and for the US hurricanes at between $11bn and $14bn.

For the reinsurance market, the wildfires that ravaged California for the second year in a row were far less predictable. Wildfire has historically been regarded as an attritional peril by insurers in California but this approach looks unsustainable after the experience of the past two years. Wildfire losses in 2017 are estimated to have cost insurers $10bn and losses in 2018 look likely to exceed this figure, with current estimates running between $9bn and $15bn. Beazley's share of this loss is currently estimated at $40m.

Questions are now being raised about the insurability of wildfires, but our hope is that it will prove possible to identify effective loss control precautions that can continue to make affordable cover available.

The net effect of 2017's catastrophe losses exerted continued upward pressure on premium renewal rates in January 2018. We saw rate rises averaging 8% for US business, which accounts for approximately 54% of our portfolio, and 5% for non-US business.

In light of the current rating environment, we plan to continue to grow our reinsurance account in 2019.

Strategic report of the managing agent continued

Specialty lines

	2018 $m	2017 $m
Gross premiums written	250.6	224.0
Net premiums written	215.1	192.1
Earned premiums, net of reinsurance	196.1	174.2
Claims incurred, net of reinsurance	(95.8)	(85.8)
Net operating expenses	(74.0)	(68.5)
Technical result	**26.3**	**19.9**
Claims ratio	49%	49%
Expense ratio	38%	40%
Combined ratio	87%	89%
Renewal rate change	1%	-

Specialty lines, the syndicate's largest division, was an engine of growth for the company in 2018, with premiums rising 12% to $250.6m (2017: $224.0m). Our combined ratio was up to 87% (2017: 89%) following reserve releases that were slightly below these in 2017. Overall we saw rates rise by 1% (2017: flat).

For more than three decades, the US has been the largest and most attractive market for the syndicate's specialty lines products, ranging from architects' and engineers' professional liability (A&E) in the early years (and still today) to healthcare and environmental liability insurance more recently. The US continued to account for the bulk of our premium in 2018 and we saw growth of 20% in our locally underwritten US business. However our efforts to grow internationally outside the US are also gathering pace, especially in Europe, as demand for our products intensifies.

We expect that the rapid development of our non US business will, over time, change the geographic mix of our portfolio, although our focus on the US market will certainly not diminish in the process. Our 2019 plan envisages the non US portion of our portfolio growing to 20%, from 17% in 2018.

Specialty lines accounted for 52% of the syndicate's total premium in 2018, covering a very wide array of types of cover and clients ranging in size from the world's largest engineering firms, health systems and technology companies to thousands of small businesses requiring specialist liability policies.

We concluded last year that it would be beneficial to split this diverse portfolio into two new divisions for 2019. One division, which continues to be called specialty lines, is led by James Eaton, who was previously responsible for our small business portfolio. The other, called cyber & executive risk (Cy/Ex), is led by Mike Donovan, who previously ran our technology, media and business services team.

The rationale for this grouping is that we saw great value in bringing our management liability and cyber business together "under one roof". Many of our brokers already group cyber and management liability business together and discuss them in the same breath with clients. Both directors and officers insurance (D&O), a major management liability line, and cyber liability risks rank as boardroom issues in the eyes of many of our clients.

The strength of the syndicate's cyber business is well known. We saw premiums from this line grow by 9% last year and there is further scope to grow significantly, given that more than half the new business we saw in 2018 was from first time buyers. However we see excellent growth opportunities within our management liability portfolio as well, particularly for products such as Beazley Safeguard, which combines risk management advice, crisis response and liability coverage for organisations entrusted with the care of children or vulnerable adults.

Our ambition within our CyEx division is to position the syndicate as the leading provider of quality management liability coverage for both traditional and emerging exposures – a reputation our cyber team already enjoys. Our London market business will continue to serve as a crucible for innovation in many of these lines: our London underwriters have deep expertise in a number of areas that are not well addressed by many domestic markets, such as wage & hour coverage in the US, protecting companies against claims made under the Fair Labor Standards Act. Last July we launched in London a Lloyd's consortium to offer increased capacity for wage & hour risks.

Innovation is equally important to the team that will continue to trade under the specialty lines name. This includes our professions group, led by Jerry Sullivan, with teams focusing on the professional liability needs of lawyers and architect and engineers, as well as our fast growing environmental liability team.

Another major growth area within specialty lines is in the healthcare space, where we have been expanding our offerings to life sciences companies. This segment currently comprises medical device manufacturers, contract research organisations involved in clinical trails, blood and tissue banks and a range of service providers to the life services sector. It is a field in which companies collaborate closely, generating complex exposures. Adaptability and willingness to innovate need to be second nature: around two thirds of the risks underwritten by Marc Amis and his life sciences team are tailored to meet the unique needs of the individual clients involved. They are accordingly able to offer clients bundled cover for multiple exposures which is invaluable when a single claim can span multiple forms of insurance.

Finally, specialty lines will also continue to include our small business teams. Automating the operations of these teams as much as possible is the focus of our Beazley Digital strategic initiative, which should increase the productivity of our underwriters significantly. Like most Lloyd's businesses, the syndicate began life as a large risk insurer but in recent years we have been writing an ever growing volume of small business risks. These clients, and the brokers who serve them, appreciate the quality of our specialist cover and the claims service that supports them, but we do see opportunities to simplify these products and make the placement process more efficient.

Maintaining the right mix of large risk, mid market and small business will continue to be central to our thinking at the syndicate. In 2018, we continued to observe an active claims environment for some of our larger risk business, including directors & officers (D&O) risks, and large professional liability business, including hospitals and health systems. However, in contrast to previous years, we have seen prices beginning to firm in these areas.

In the cyber market, rates have been softening, but we continue to see profitable growth opportunities. The strongest growth we saw last year was outside the US where the impact of the European Union's General Data Protection Regulation and similar regulations in other regions is now beginning to bite. The business interruption risk presented by cyber attacks also continues to worry our clients and is no longer exclusively the concern of the larger businesses we insure.

Managing agent's report

The managing agent presents its report for the year ended 31 December 2018.

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 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'). Underwriting year accounts for the 2016 closed year of account will be made available to the Syndicate members.

Principal activity

The principal activity of syndicate 623 is the transaction of a range of specialised insurance business at Lloyd's.

Business review

A review of the syndicate's activities is included in the strategic report.

Risk governance and reporting

Beazley Furlonge Limited's board of directors has the responsibility for defining and monitoring the risk appetite within which Beazley Furlonge Limited and the syndicates operate, with key individuals and committees accountable for day-to-day management of risks and controls. Regular reporting by the risk management team in board meetings and senior management committees ensures that risks are monitored and managed as they arise.

2018 in review

A key design principle of the risk management framework is that all members of staff are responsible for identifying, managing and communicating risk. Whilst this activity is supported by the risk management function, all staff understand that with the benefits of an empowered culture comes the responsibility for identifying and managing risk. This is particularly important when an organisation is navigating above average levels of change.

In 2018, the managing agent on behalf of the syndicate has successfully responded to both external and internal change.

External change

The main political change that the managing agent continued to navigate in 2018 was Brexit, although this is not a significant risk as only around 4% of the syndicate's premium originates from the EU. Despite the uncertainty throughout the year, a cross functional working group has prepared the syndicate for the worst case scenario of a hard Brexit, which is where the UK leaves the EU without agreements and a transitional period. From an underwriting perspective, the EU risks expiring from 1 January 2019 have been successfully renewed onto the newly established Lloyd's Brussels platform. However a small number of the syndicate's reinsurance clients have declined to have their reinsurance renewed at Lloyds from 2019 as a result of Brexit and have instead sought coverage with Beazley Insurance dac in Dublin which results in a small reduction in premium for the syndicate. From a staff perspective, we continue to work with the 40 EU nationals (3% of employees) who are working in our UK offices to minimise the impact of Brexit on them. As such, the managing agent has successfully navigated the key risks of a potential hard Brexit. Since such a hard Brexit is not certain, our preparations have also considered two other outcomes in order to ensure that the syndicate is able to operate in every eventuality; namely 1) some form of transitional arrangement or 2) the UK decides not to leave the EU prior to Brexit.

The approach taken to business planning at Lloyd's of London during the year attracted extensive press coverage and resulted in a number of changes to the marketplace. From a syndicate perspective, the approach taken was closely aligned to our own process of cycle management which has been followed for many years. As a result, we were able to present syndicate business plans and associated capital requirements that were approved by Lloyd's as being consistent with their objective of improved risk selection and market profitability.

We have included a new section within this risk management report (see page 16) covering the impact of climate change on the syndicate. A key aspect of the syndicate's business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. In addition, we explain how climate change could affect the syndicate's own risk profile, highlighting how we respond to these risks. These include the performance of our insurance contracts, the investments we make, the office spaces we occupy, the companies we partner with and our travel footprint.

Internal change

The Beazley plc board undertook a regular review of its strategy which culminated in wide ranging discussions, supported by Beazley Furlonge Limited board members, at its strategy day in May. As a result, four new strategic initiatives were identified to support our vision. The first, Beazley Digital, looks at how we can use technology to transact and process smaller, more simple, business. The second, faster smarter underwriting, aims to equip underwriters with data and analytics to better support the underwriting of larger, more complex business. The third is about getting closer to our clients to better understand how we can support their risk management either with existing insurance products or by designing innovative new products to tackle a risk that our clients are worrying about. Finally, the fourth initiative is how we can do more in the London Market, in particular because this is the core part of our risk profile.

There has been a higher level of change at board and executive level during 2018 and this will continue into 2019. The risk management function has been working with the individuals in new roles to ensure that they understand their responsibilities within the risk management framework and to minimise the risk associated with such the transition periods. The risk management function is also providing assurance to the board that the syndicate continues to operate within risk appetite and is supported in this by internal audit who have completed an audit of risk culture.

The syndicate's risk profile has adjusted with the exit from the construction class of business within the property division and closure of the office in Norway which underwrote energy business within the marine division. Growth continues in the United States with premium volumes continuing to increase during 2018. The chief risk officer completed his secondment to the Atlanta office and provided a report to the board. This report provided assurance that the US operations have coped well with the recent growth and that processes and practices have evolved gradually to adapt to the risks and challenges associated with operating a larger company. As such, the US operations are well placed to achieve the planned growth over the next 5 years.

Finally, we have introduced a number of new working practices across the group to provide our staff with the best environment and to continue to attract new talent to the group. This includes introducing Activity Based Working environments in our larger offices which provides staff with the space most conducive for the task in hand. We have also provided staff with technology to be able to work remotely and to work more flexibly around our core hours, so that our employees can better balance the demands of work and personal life. We now also provide staff with flexibility to dress for the day. These various changes help ensure that our staff can perform to the best of their ability which helps to lower the operational risk inherent in all companies. Our approach of empowering all our employees, coupled with thoughtful management of risk means that we can nimbly respond to and manage change which creates the right environment for delivering sustainable growth.

The latest chief risk officer report to the board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that the managing agent is operating within risk appetite as at 31 December 2018.

Risk management philosophy

The syndicate's risk management philosophy is to balance the risks the business takes on with the associated cost of controlling these risks, whilst also operating within the risk appetite agreed by the board. In addition, our risk management processes are designed to continuously monitor our risk profile against risk appetite and to exploit opportunities as they arise.

Risk management strategy

The Beazley Furlonge Limited board has delegated executive oversight of the risk management department to the executive committee, which in turn has delegated immediate oversight to the risk and regulatory committee. The board has also delegated oversight of the risk management framework to the audit and risk committee.

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees are aware of the role they play in all aspects of the risk management process, from identifying sources of risk to their part in the control environment. The impact of each risk is recorded in the risk register on a 1:10 likelihood of that risk manifesting in the next 12 months. A risk owner has been assigned responsibility for each risk, and it is the responsibility of that individual to periodically assess the impact of the risk and to ensure appropriate risk mitigation procedures are in place. External factors facing the business and the internal controls in place are routinely reassessed and changes are made when necessary. On an annual basis the board agrees the risk appetite for each risk event and this is documented in the risk management framework document. The residual financial impact is managed in a number of ways, including:
- mitigating the impact of the risk through the application of controls;
- transferring or sharing risk through outsourcing and purchasing insurance and reinsurance; and
- tolerating risk in line with the risk appetite.

In addition, the following risk management principles have been adopted:
- risk management is a part of the wider governance environment;
- techniques employed are fit for purpose and proportionate to the business;
- risk management is a core capability for all employees;
- risk management is embedded in day-to-day activities;
- there is a culture of risk awareness, in which risks are identified, assessed and managed;
- risk management processes are robust and supported by verifiable management information; and
- risk management information and reporting is timely, clear, accurate and appropriately escalated.

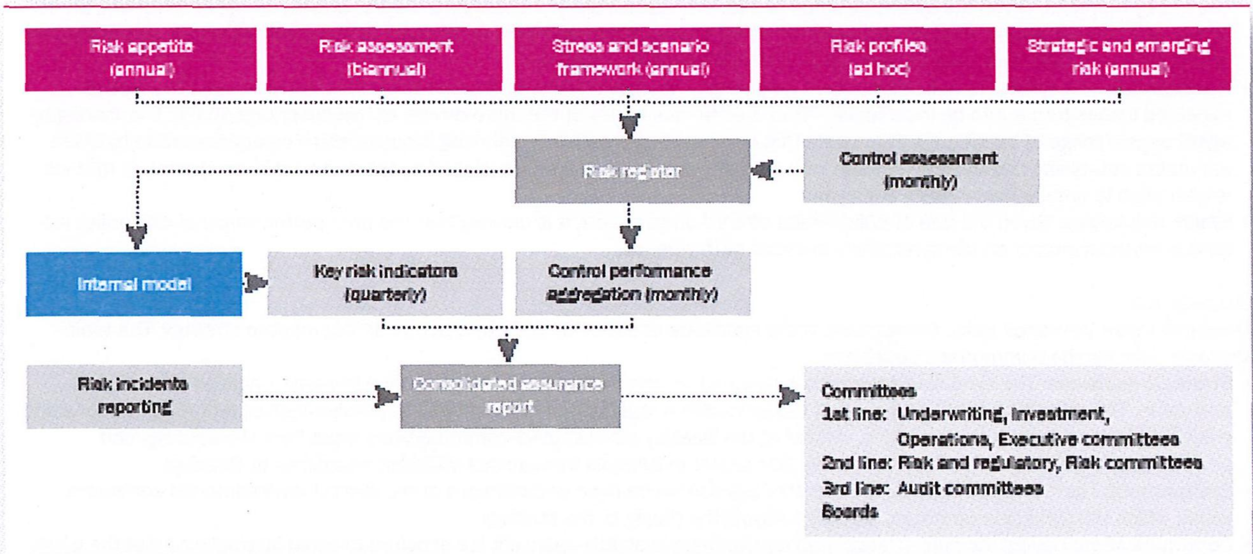
Managing agent's report continued

Risk management framework

The managing agent takes an enterprise-wide approach to managing risk following the syndicate's risk management framework. The framework establishes our approach to identifying, measuring, mitigating and monitoring the syndicate's key risks. The managing agent has adopted the 'three lines of defence' framework: namely business risk management, the risk management function and the internal audit function. Within business risk management, there are two defined risk and control roles: risk owner and control reporter. Each risk event is owned by the risk owner who is a senior member of staff. Risk owners, supported by the risk management team, perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

Business risk management *Risk ownership*	*Risk management* *Risk oversight*	*Internal audit* *Risk assurance*
– *Identifies risk* – *Assesses risk* – *Mitigates risk* – *Monitors risk* – *Records status* – *Remediates when required*	– *Are risks being identified?* – *Are controls operating effectively?* – *Are controls being signed off?* – *Reports to committees and board*	– *Independently tests control design* – *Independently tests control operation* – *Reports to committees and board*

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (53 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the board, and the control environment that is operated by the business to remain within the risk appetite.



The diagram above illustrates the components of the risk management framework as operated across the Beazley Group.

In summary, the board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. Risk management then reports to the board on how well the business is operating using a risk management report. For each risk, the risk management report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance functions and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually evaluated and where appropriate improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks. There were no material changes made during 2018.

A suite of risk management reports are provided to the boards and committees to assist senior management and board members to discharge their oversight and decision making responsibilities. The risk reports include the risk appetite statement, the risk management report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the Beazley plc remuneration committee and the ORSA report. The internal audit function considers the risk management framework in the development of its audit universe to determine its annual risk-based audit plan. The plan is based on, among other inputs, the inherent and residual risk scores as captured in the risk register. Finally, a feedback loop operates, with recommendations from the internal audit reviews being assessed by the business and the risk management function for inclusion in the risk register as appropriate.

The risks to financial performance

The board monitors and manages risks grouped into eight categories, which cover the universe of risk that could affect the syndicate. There have been no new risk areas identified and no major shifts in existing risks. The board considers the following two risk categories to be the most significant.

Insurance risk

Given the nature of the syndicate's business, the key risks that impact financial performance arise from insurance activities. The main insurance risks can be summarised in the following categories:

- **Market cycle risk:** The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies using incomplete data to make decisions. This risk would affect multiple classes within the specialty lines division across a number of underwriting years. The managing agent uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers.
- **Natural catastrophe risk:** The risk of one or more large events caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given the syndicate's risk profile, such an event could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Non natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given the syndicate's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Reserve risk:** The syndicate has a consistent reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The managing agent uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.
- **Single risk losses:** Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the syndicate's financial performance.

Strategic risk

Alongside these insurance risks, the success of the syndicate depends on the execution of an appropriate strategy. The main strategic risks can be summarised as follows:

- **Strategic decisions:** The syndicate's performance would be affected in the event of making strategic decisions that do not add value. The managing agent on behalf of the syndicate mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the Beazley plc executive committee and input from the strategy and performance group (a group of approximately 30+ senior individuals from across different disciplines at Beazley).
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which the syndicate operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of the syndicate's progress against its strategy.
- **Senior management performance:** There is a risk that senior management could be overstretched or could fail to perform, which would have a detrimental impact on the syndicate's performance. The performance of the senior management team is monitored by the chief executive and talent management team and overseen by the Beazley plc nomination committee.
- **Reputation:** Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting, it has the potential to have a significant impact on an organisation. The syndicate expects staff working on their behalf to act honourably by doing the right thing.
- **Flight:** There is a risk that the managing agent could be unable to deliver its strategy due to the loss of key personnel. The syndicate has controls in place to identify and monitor this risk, for example, through succession planning.
- **Crisis management:** This is the risk caused by the destabilising effect of the syndicate having to deal with a crisis and is mitigated by having a detailed crisis management plan.
- **Corporate transaction:** There is a risk that the syndicate could be involved in a corporate transaction which did not return the expected value to members. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

Managing agent's report continued

Under the environmental risk heading, the board identifies and analyses emerging and strategic risk on an annual basis for discussion at the board strategy day in May.

Other risks

The remaining six risk categories monitored by the board are:

- **Market (asset) risk:** This is the risk that the value of investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the investment committee.
- **Operational risk:** This risk is the failure of people, processes and systems or the impact of an external event on the syndicate's operations, and is monitored by the operations committee. An example would be a cyber attack having a detrimental impact on our operations.
- **Credit risk:** The syndicate has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The underwriting committee monitors this risk.
- **Regulatory and legal risk:** This is the risk that the syndicate might fail to operate in line with the relevant regulatory framework in the territories where it does business. Of the eight risk categories, the board has the lowest tolerance for this risk. This risk is monitored by the risk and regulatory committee.
- **Liquidity risk:** This is the risk that the syndicate might not have sufficient liquid funds following a catastrophic event. The investment committee monitors this risk which, given the nature of the asset portfolio, is currently small.
- **Group risk:** The structure of the Beazley group is not complex and so the main group risk is that one group entity might operate to the detriment of another group entity or entities. The Beazley plc board monitors this risk through the reports it receives from each entity.

Anti-bribery and corruption risk

The syndicate also considered anti-bribery and corruption risk across all risk categories. We are committed to ensuring that all business is conducted in an ethical and honest manner, and that we are not involved in any illicit activity defined under the UK Bribery Act and US Foreign Corrupt Practices Act. This risk includes the risk of bribery and corruption we are exposed to and manifests itself in the susceptibility to unethical or dishonest influences whereby illicit payments and/or inducements are either made or received. Such activity has severe reputational, regulatory and legal consequences, including fines and penalties. Considerations relevant to this risk include the nature, size and type of transactions, the jurisdiction in which transactions occur, and the degree to which agents or third parties are used during such transactions.

Every employee and individual acting on the syndicate's behalf is responsible for maintaining our reputation. We have a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all aspects of our business. In doing so, we aim to recruit and retain high-calibre employees who carry out their responsibilities honestly, professionally and with integrity. We maintain a number of policies designed to prevent any risk of bribery and corruption, which are communicated to all employees and supplemented with appropriate training.

Climate change risk

The warming of the global climate is recognised as a significant emerging risk due to its widespread potential impact on the global population, environment and economy. A key aspect of the syndicate's business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. As a speciality insurer, various classes of business we underwrite are subject to the affect climate change presents to the risk environment. As part of the underwriting process, we work with our insureds to understand the risks facing their organisation, including applicable climate related risks, to tailor insurance coverages to mitigate the associated financial risks.

We acknowledge and accept that over time climate change could impact the risks facing our insureds and we aim to manage the resulting risk to the syndicate as described below.

- **Pricing risk:** This is the risk that current pricing benchmarks do not adequately consider the prospective impact of climate change resulting in systemic under-pricing of climate exposed risks. The syndicate's business planning process establishes how much exposure in certain classes of business or geographic area we wish to accept. We rely on a strong feedback loop between our claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk by risk transactional level considerations. Our underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk.
- **Catastrophe risk:** This is the risk that current models do not adequately capture the impacts of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events. The syndicate utilises Risk Management Solutions (RMS) models to facilitate the estimation of aggregate exposures based on the syndicate's underwriting portfolio. There is an on-going feedback loop between (re)insurers and catastrophe model vendors which has contributed to model improvements. Catastrophe models are evolving to include new or secondary perils which may or may not be related to climate change. In addition, the syndicate runs a series of Natural Catastrophe Realistic Disaster Scenarios (RDS) on a regular basis which monitors the syndicate's exposure to these perils. These include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.
- **Reserve risk:** This is the risk that established reserves are not sufficient, in particular for longer tail business, to reflect the ultimate impact climate change may have on paid losses. With support from our group actuarial team, claims teams and other members of management the syndicate establishes financial provisions for our ultimate claims liabilities. The syndicate maintains a prudent approach to reserving to help mitigate the uncertainty within the reserves estimation process.
- **Asset risk:** This is the risk that climate change has a significant impact across a number of industries which may negatively impact the value of investments in those companies. The syndicate considers the impact of climate change on its asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. We subscribe to the research services of a specialist company in the field of environmental, social and governance research and have integrated their proprietary ratings into the internal credit process applied to investments in corporate debt securities. A minimum standard for Environmental, Social and Governance (ESG) performance is defined and companies not meeting the required standard will be excluded from the approved list of issuers. The analysis also includes a consideration of the sustainability of each company with regard to the potential decline in demand in specific sectors.
- **External event risk:** This is the risk that the physical impact of climate related events has a material impact on our own people, processes and systems leading to increased operating costs or the inability to deliver uninterrupted client service. The syndicate has business continuity plans in place to facilitate the delivery of uninterrupted client service in the event of a disaster.
- **Commercial management risk:** The syndicate aims to minimise where possible the environmental impact of our business activities and those that arise from the occupation of our office spaces. As we operate in leased office spaces our ability to direct environmental impacts is relatively limited however we do engage with our employees, vendors and customers in an effort to reduce overall waste and environmental footprint.
- **Credit risk:** As a result of material natural catastrophe events there is a risk that our reinsurance counterparties are unable to pay reinsurance balances due to the syndicate. If the frequency or severity of these events is increased due to climate change this could have a corresponding increase on credit risk. An important consideration when placing our reinsurance programme is evaluation of our counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking which considers: financial strength ratings, capital metrics, performance metrics as well as other considerations.
- **Regulatory and legal risk:** Regulators, investors and other stakeholders (including political activists) are becoming increasingly interested in the private sector's response to climate change. Failure to appropriately engage with these stakeholders and provide transparent information may result in the risk of reputational damage or increased scrutiny. The syndicate regularly monitors the regulatory landscape to ensure that we can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk.
- **Liquidity risk:** Linked to the underwriting and credit risks noted above, losses resulting from unprecedented natural disasters or extreme weather erode our ability to pay claims and remain solvent. The group establishes capital at a 1:250 level based on the prevailing business plan. Whilst over time we anticipate climate change to have an impact on the frequency, severity and nature of natural catastrophe events on a year to year basis this is captured in the internal capital modelling.
- **Strategic risk:** This is the risk that our strategy fails to effectively consider climate change resulting in our business planning not adapting fast enough to respond to changes in wider claims trends. In addition, market pressure or external factors result in a decision to stop underwriting certain classes of business which impacts our ability to deliver business plan results. This results in loss of value for investors which erode their confidence in management. This risk is considered through the annual and long term business planning process, we additionally look to the Lloyd's market to provide additional guidance.

Managing agent's report continued

Directors

The directors of Beazley Furlonge Limited during the period covered by this annual report who participated on syndicate 623 indirectly through Beazley Staff Underwriting Limited are as follows:

	Total bonuses deferred and at risk £	2017 year of account underwriting capacity £	2018 year of account underwriting capacity £	2019 year of account underwriting capacity £
M R Bernacki[1]	191,600	400,000	400,000	N/A
M L Bride[1]	191,600	400,000	400,000	N/A
A P Cox	191,600	400,000	400,000	400,000
D A Horton	191,600	400,000	400,000	400,000
N P Maidment[2]	191,600	400,000	400,000	N/A
C A Washbourn[2]	191,600	400,000	400,000	N/A

1 M R Bernacki and M L Bride are expected to step down from the board in 2019;
2 C A Washbourn and N P Maidment stepped down from the board during the year.

A full list of the directors of the managing agent who held office during the year can be found on page 67 of these syndicate annual accounts.

Disclosure of information to the auditor

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

Auditor

KPMG LLP will be subject to mandatory rotation in the UK after the 2018 year end and therefore the Beazley group, in consultation with Beazley Furlonge Limited, decided to conduct a tender for the audit services for the whole group, including its managed syndicates. Following a rigorous process, the managing agent is pleased to announce that it has appointed EY as its auditor for financial periods incepting on or after January 2019. This is subject to Beazley plc receiving approval for EY's appointment from Beazley plc shareholders at its next AGM. KPMG LLP will resign as auditor following completion of the 31 December 2018 audit.

On behalf of the board

M L Bride
Finance director

8 March 2019

Statement of managing agent's responsibilities

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 annual accounts for each financial year. Under that law they have elected to prepare the annual accounts 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 annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these 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 annual accounts;
- 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.

On behalf of the board

M L Bride
Finance director

8 March 2019

Independent auditor's report to the members of syndicate 623

Opinion

We have audited the financial statements of Syndicate 623 for the year ended 31 December 2018 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: non-technical account, Balance Sheet – Assets, Balance Sheet – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors of the Managing Agent have prepared the Annual Return on the going concern basis as they do not intend to liquidate the syndicate or to cease its operations, and as they have concluded that the syndicate's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the syndicate's business model, including the impact of Brexit, and analysed how those risks might affect the syndicate's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the syndicate will continue in operation.

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

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 to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 19, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities.**

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the syndicate's members, as a body, in accordance with 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 company and the syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Elizabeth Cox

Elizabeth Cox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

8 March 2019

Profit or loss account

for the year ended 31 December 2018

	Notes	2018 $m	2017 $m
Gross premiums written	3	478.2	432.7
Outward reinsurance premiums		(73.9)	(73.7)
Net premiums written	3	**404.3**	**359.0**
Change in the gross provision for unearned premiums	14	(24.4)	(24.9)
Change in the provision for unearned premiums, reinsurers' share	14	0.3	2.0
Change in the net provision for unearned premiums		(24.1)	(22.9)
Earned premiums, net of reinsurance	3	**380.2**	**336.1**
Allocated investment return transferred from the non-technical account	8	3.5	18.1
Gross claims paid		(244.3)	(199.2)
Reinsurers' share of claims paid		53.4	36.7
Claims paid net of reinsurance		(190.9)	(162.5)
Change in the gross provision for claims	14	(17.7)	(64.0)
Change in the provision for claims, reinsurers' share	14	(9.8)	28.8
Change in the net provision for claims		(27.5)	(35.2)
Claims incurred, net of reinsurance		**(218.4)**	**(197.7)**
Net operating expenses	4	**(146.6)**	**(139.1)**
Balance on the technical account		**18.7**	**17.4**
Investment income	8	12.1	10.2
Investment expenses and charges	8	(1.0)	(1.1)
Realised gains on investments	8	0.1	4.5
Unrealised (loss)/gains on investments	8	(7.7)	4.5
		3.5	18.1
Allocated investment return transferred to general business technical account		(3.5)	(18.1)
(Loss)/gain on foreign exchange		(4.4)	1.3
Other charges	9	(5.2)	(6.2)
Profit for the financial year		**9.1**	**12.5**

All of the above operations are continuing.

The notes on pages 26 to 52 form part of these financial statements.

Statement of other comprehensive income

year ended 31 December 2018

	2018 $m	2017 $m
Profit for the financial year	9.1	12.5
Foreign exchange loss on brought forward reserves	(1.3)	(0.2)
Total comprehensive income in the year	**7.8**	**12.3**

Statement of changes in members' balances

year ended 31 December 2018

	2018 $m	2017 $m
Members' balances brought forward at 1 January	16.4	63.9
Profit for the financial year	9.1	12.5
Foreign exchange loss on brought forward reserves	(1.3)	(0.2)
Profit distribution before members agent's fees – 2014 Year of account	–	(59.8)
Profit distribution before members agent's fees – 2015 Year of account	(49.9)	–
Members' balances carried forward at 31 December	**(25.7)**	**16.4**

Members participate on syndicates by reference to years of account (YOA) and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

The notes on pages 26 to 52 form part of these financial statements.

Balance sheet

at 31 December 2018

	Notes	2018 $m	2017 $m
Assets			
Financial assets at fair value	10	**576.8**	**645.3**
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	14	36.4	36.2
Claims outstanding, reinsurers' share	14	185.3	195.8
		221.7	**232.0**
Debtors			
Debtors arising out of direct insurance operations		144.3	137.5
Debtors arising out of reinsurance operations		41.7	39.6
Other debtors	12	42.9	21.1
		228.9	**198.2**
Cash at bank and in hand	13	**18.5**	**27.7**
Deferred acquisition costs		**61.8**	**58.4**
Other prepayments and accrued income		**3.9**	**3.5**
Total assets		**1,111.6**	**1,165.1**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations		(25.7)	16.4
Technical provisions			
Provision for unearned premiums	14	247.4	224.7
Claims outstanding	14	766.5	753.9
		1,013.9	**978.6**
Creditors			
Creditors arising out of direct insurance operations		37.9	42.0
Creditors arising out of reinsurance operations		2.4	6.6
Other creditors	15	78.4	120.8
		118.7	**169.4**
Financial liabilities	10	**1.6**	**0.3**
Accruals and deferred income		**3.1**	**0.4**
Total liabilities, capital and reserves		**1,111.6**	**1,165.1**

The notes on pages 26 to 52 form part of these financial statements.

The syndicate annual accounts on pages 22 to 52 were approved by the board of Beazley Furlonge Limited on 8 March 2019 and were signed on its behalf by:

A P Cox
Active underwriter

M L Bride
Finance director

Cash flow statement

year ended 31 December 2018

	Notes	2018 $m	2017 $m
Reconciliation of total comprehensive income for the financial year to net cash inflow from operating activities			
Total comprehensive income in the year		7.8	12.5
Increase in net technical provisions		45.6	66.3
(Increase) in debtors		(31.1)	(34.9)
(Decrease)/increase in creditors		(48.0)	27.7
Investment return		(3.5)	(18.1)
Increase in deferred acquisition cost		(3.4)	(8.9)
Net cash flows from operating activities		**(32.6)**	44.6
Net sale/(purchase) of investments		61.6	(38.7)
Cash received from investment return		11.2	13.7
Net cash from investing activities		**72.8**	**(25.0)**
Transfer to members in respect of underwriting participations		(49.9)	(59.8)
Net cash from financing activities		**(49.9)**	**(59.8)**
Net (decrease) in cash and cash equivalents		**(9.7)**	(40.2)
Cash and cash equivalents at the beginning of the year		32.6	66.8
Effect of exchange rate changes on cash and cash equivalents		(0.7)	6.0
Cash and cash equivalents at the end of the year	13	**22.2**	**32.6**

The notes on pages 26 to 52 form part of these financial statements.

Notes to the syndicate annual accounts

1 Accounting policies

Basis of preparation

Syndicate 623 ('the syndicate') comprises a group of members of the Society of Lloyd's that underwrite insurance business in the London Market. The address of the syndicate's managing agent is given on page 67.

These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') and applicable Accounting Standards in the United Kingdom and the Republic of Ireland, Financial Reporting Standard 102 'FRS 102' and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 'FRS 103'.

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss that are measured at fair value. The principal accounting policies applied in the preparation of these syndicate annual accounts are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in US dollars, being the syndicate's functional currency, and in millions, unless noted otherwise.

Use of estimates and judgements

The preparation of the syndicate annual accounts requires management to make judgements, estimates and assumptions that affect the application of accounting policies and 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 accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the syndicate annual accounts are described in this statement of accounting policies.

The most critical estimate included within the syndicate's financial position is the estimate for losses incurred but not reported. The total estimate as at 31 December 2018 is included within claims outstanding in the balance sheet.

The syndicate annual accounts have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

a) Premiums

Gross premiums written comprise premiums on contracts incepted during the financial year. 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, as well as adjustments made in the year to premiums written in prior accounting periods.

b) Unearned premiums

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in the following or subsequent financial periods, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

c) Claims

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported ('IBNR') and future claims handling provisions. Reinsurance recoveries are accounted for in the same period as the incurred claims for the related business.

The provision for claims comprises amounts set aside for claims advised and IBNR. The IBNR amount is based on estimates calculated using widely accepted statistical techniques (e.g. chain ladder) which are reviewed annually by external consulting actuaries. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. For more recent underwriting, regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating claims provisions are that the past experience is a reasonable predictor of likely future claims development and that the rating and other models used to analyse current business are a fair reflection of the likely level of ultimate claims to be incurred.

The reinsurers' share of provisions for claims is based on calculated amounts for 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.

1 Accounting policies continued

d) Acquisition costs

Acquisition costs comprise brokerage, staff and staff related costs of the underwriters acquiring the business. The proportion of acquisition costs in respect of unearned premiums is deferred at the balance sheet date and recognised in later periods when the related premiums are earned.

e) Liability adequacy testing

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of deferred acquisition coast (DAC) and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ('unexpired risk provision').

f) Foreign currencies

Transactions in foreign currencies are translated to the syndicate's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account. For the purpose of foreign currency translation, unearned premiums and deferred acquisition costs are treated as monetary items.

g) Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid-market value and deposits with credit institutions and overseas deposits are stated at cost.

h) Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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

i) Ceded reinsurance

These are contracts entered into by the syndicate with reinsurers under which the syndicate is compensated for losses on contracts issued by the syndicate and that meet the definition of an insurance contract. Insurance contracts entered into by the syndicate under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

Any benefits to which the syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The syndicate assesses its reinsurance assets for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the profit or loss account.

Notes to the financial statements continued

1 Accounting policies continued

j) Financial instruments

Financial instruments are recognised in the balance sheet at such time that the syndicate becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the syndicate's obligations specified in the contract expire, are discharged or cancelled.

Purchases and sales of financial assets are recognised on the trade date, which is the date the syndicate commits to purchase or sell the asset.

Financial assets

On acquisition of a financial asset, the syndicate is required to classify the asset into the following categories: financial assets at fair value through the profit or loss account, loans and receivables, held to maturity and available for sale. The syndicate does not make use of the held to maturity and available for sale classifications.

Financial assets at fair value through income statement

Except for derivative financial instruments, all financial assets are designated as fair value through the profit or loss account upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the syndicate's key management. The syndicate's investment strategy is to invest and evaluate performance with reference to their fair values.

Fair value measurement

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

When available, the syndicate measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the syndicate establishes fair value using a valuation technique. Valuation techniques include using recent orderly transactions between market participants (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the syndicate, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The syndicate calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. These prices are monitored and deemed to approximate exit price. Where the syndicate has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the syndicate and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the syndicate believes a third-party market participant would take them into account in pricing a transaction.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through the profit or loss account are recognised in the profit or loss account when incurred. Financial assets at fair value through the profit or loss account are measured at fair value, and changes therein are recognised in the profit or loss account within investment income.

1 Accounting policies continued

Hedge funds, equity funds and illiquid credit assets

The syndicate participates in a number of hedge funds and related financial instruments for which there are no available quoted market prices. The valuation of these hedge funds is based on fair value techniques (as described above). The fair value of our hedge fund portfolio is calculated by reference to the underlying net asset values (NAV) of each of the individual funds. Consideration is also given in valuing these funds to any restriction applied to distributions, the existence of side pocket provisions, and the timing of the latest available valuations. At certain times, the syndicate will have uncalled unfunded commitments in relation to its illiquid credit assets. These uncalled unfunded commitments are actively monitored by the syndicate and are disclosed in the notes to the financial statements. The additional investment into its illiquid credit asset portfolio is recognised on the date that this funding is provided.

k) Insurance debtors and creditors

Insurance debtors and creditors are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. These are classified as insurance debtors and creditors as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance debtors are measured at amortised cost less any provision for impairments. Insurance creditors are stated at amortised cost.

l) Other debtors

Other debtors principally consist of prepayments, accrued income and sundry debtors and are carried at amortised cost less any impairment losses.

m) Other creditors

Other creditors are stated at amortised cost determined on the effective interest rate method.

n) Hedge accounting and derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of fair value of a derivative at initial recognition is the transaction price.

o) Impairment of financial assets

The syndicate assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the profit or loss account.

p) Cash at bank and in hand

This consists of cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition. Cash at bank and in hand are classified as loans and receivables and carried at amortised cost less any impairment losses.

Notes to the financial statements continued

1 Accounting policies continued

q) 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 (currently at 20%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

r) Pension costs

Beazley Furlonge Limited operates both a defined benefit and a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

s) Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% of the profit on a year of account basis subject to the operating of a three-year deficit clause. This is charged to the syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

2 Risk management

The syndicate has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The sections below outline the syndicate's risk appetite and explain how it defines and manages each category of risk.

2.1 Insurance risk

The syndicate's insurance business assumes the risk of loss from persons or organisations that are directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, reinsurance, claims management and reserving. Each element is considered below:

a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the syndicate:
- cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

The syndicate's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes.

This is achieved by accepting a spread of business over time, segmented between different products, geography and size.

The annual business plans for each underwriting team reflect the syndicates's underwriting strategy, and set out the classes of business, the territories and the industry sectors in which business is to be written. These plans are approved by the board of Beazley Furlonge Limited and monitored by the monthly underwriting committee.

The syndicate's underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include but are not limited to the financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses.

The syndicate also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

2 Risk management continued

To address this, the syndicate sets out the exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. This is monitored through regular calculation of RDS. The aggregate position is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations to which the syndicate is exposed.

The syndicate uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The range of scenarios considered include natural catastrophes, marine, liability, political, terrorism and war events.

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. Where possible the syndicate measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

To manage underwriting exposures, the syndicate has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2018, the normal maximum line that any one underwriter could commit the managed syndicate to was $18.0m. In most cases, maximum lines for classes of business were much lower than this.

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters and peer review for all risks exceeding individual underwriters authority limits. Exception reports are also run regularly to monitor compliance.

All underwriters also have a right to refuse renewal or change the terms and conditions of insurance contracts upon renewal. Rate monitoring details, including limits, deductibles, exposures, terms and conditions and risk characteristics are also captured and the results are combined to monitor the rating environment for each class of business.

Binding authority contracts

A proportion of the syndicate's insurance risks are transacted by third parties under delegated underwriting authorities. Each third party is thoroughly vetted by our coverholder approval group before it can bind risks, and is subject to rigorous monitoring to maintain underwriting quality and confirm ongoing compliance with contractual guidelines.

Operating divisions

In 2018, the syndicate's business consisted of five operating divisions. The following table provides a breakdown of gross premiums written by division:

	2018	2017
Marine	13%	14%
Political, accident & contingency	6%	6%
Property	19%	18%
Reinsurance	10%	11%
Specialty lines	52%	51%
Total	**100%**	**100%**

b) Reinsurance risk

Reinsurance risk to the syndicate arises where reinsurance contracts, put in place to reduce gross insurance risk, do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed separately below.

The syndicate's reinsurance programmes complement the underwriting team business plans and seek to protect syndicate capital from an adverse volume or volatility of claims on both a per risk and per event basis. In some cases the syndicate deems it more economic to hold capital than purchase reinsurance. These decisions are regularly reviewed as an integral part of the business planning and performance monitoring process.

The group's reinsurance security committee (RSC) examines and approves all reinsurers to ensure that they possess suitable security. The syndicate's ceded reinsurance team ensures that these guidelines are followed, undertakes the administration of reinsurance contracts, monitors and instigates our responses to any erosion of the reinsurance programmes.

Notes to the financial statements continued

2 Risk management continued

c) Claims management risk

Claims management risk may arise within the syndicate in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Beazley brand and undermine its ability to win and retain business or incur punitive damages. These risks can occur at any stage of the claims life-cycle.

The syndicate's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business's broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses.

d) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the syndicate where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debt in provisions.

To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognised techniques to project gross premiums written, monitor claims development patterns and stress test ultimate insurance liability balances. An external independent actuary also performs an annual review to produce a statement of actuarial opinion for the syndicate.

The objective of the syndicate's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The estimates of gross premiums written and claims prepared by the actuarial department are used through a formal quarterly peer review process to independently test the integrity of the estimates produced by the underwriting teams for each class of business. These meetings are attended by senior management, senior underwriters, actuarial, claims, and finance representatives.

A five percent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity:

	5% increase in claims reserves		5% decreases in claims reserves	
Sensitivity to insurance risk (claims reserves)	2018 $m	2017 $m	2018 $m	2017 $m
Impact on profit	(29.1)	(27.9)	29.1	27.9

The syndicate also monitors its exposure to insurance risk by location. The below table provides an analysis of the geographical breakdown of its written premiums.

	2018 %	2017 %
US	61	62
Europe[1]	16	15
Other	23	23
	100	100

1 Includes UK

2.2 Financial risk

The focus of financial risk management for the syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

2 Risk management continued

2.2 Strategic risk

This is the risk that Beazley Furlonge Limited's strategy is inappropriate or that Beazley Furlonge Limited is unable to implement its strategy. There is no tolerance for any breach of guidance issued by the board, and where events supersede the strategic plan this is escalated at the earliest opportunity through Beazley Furlonge Limited's monitoring tools and governance structure.

2.3 Market risk

Market risk arises where the value of assets and liabilities changes as a result of movements in foreign exchange rates, interest rates and market prices.

Foreign exchange risk

The functional currency of the syndicate is the US dollar and the presentation currency in which the syndicate reports its results is the US dollar. The effect of this on foreign exchange risk is that the syndicate is exposed to fluctuations in exchange rates for non-dollar denominated transactions and net assets.

The syndicate has four main settlement currencies: US dollars, sterling, Canadian dollars and euro. Transactions in all currencies are converted to US dollars on initial recognition and revalued at the reporting date. Remaining foreign exchange risk is actively managed as described below.

The syndicate's assets are matched by currency to the principal underlying currencies of its insurance liabilities. This helps mitigate the risk that the syndicate's assets required to cover its insurance liabilities are not materially affected by any future movements in exchange rates.

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

31 December 2018	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	81.1	57.9	21.1	160.1	951.5	1,111.6
Total liabilities	(96.8)	(34.2)	(69.7)	(200.7)	(936.6)	(1,137.3)
Net assets	**(15.7)**	**23.7**	**(48.6)**	**(40.6)**	**14.9**	**(25.7)**

31 December 2017	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	68.4	55.7	23.9	148.0	1,017.1	1,165.1
Total liabilities	(84.0)	(29.2)	(68.1)	(181.3)	(967.4)	(1,148.7)
Net assets	**(15.6)**	**26.5**	**(44.2)**	**(33.3)**	**49.7**	**16.4**

Sensitivity analysis

In 2018, the syndicate managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be entirely US dollar denominated. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 11. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

Fluctuations in the syndicate's trading currencies against the US dollar would result in a change to profit and net asset value. The table below gives an indication of the impact on profit and net assets of a percentage change in relative strength of US dollar against the value of sterling, Canadian dollar and euro, simultaneously. The analysis is based on the current information available and an assumption that the impact of foreign exchange on non-monetary items will be nil and is presented net of the impact of the exchange rate derivatives referenced above.

	Impact on profit for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2018 $m	2017 $m	2018 $m	2017 $m
Dollar weakens 30% against other currencies	0.4	4.5	0.4	4.5
Dollar weakens 20% against other currencies	0.3	3.0	0.3	3.0
Dollar weakens 10% against other currencies	0.1	1.5	0.1	1.5
Dollar strengthens 10% against other currencies	(0.1)	(1.5)	(0.1)	(1.5)
Dollar strengthens 20% against other currencies	(0.3)	(3.0)	(0.3)	(3.0)
Dollar strengthens 30% against other currencies	(0.4)	(4.5)	(0.4)	(4.5)

Notes to the financial statements continued

2 Risk management continued

Interest rate risk

Some of the syndicate's financial instruments, including financial investments, cash and borrowings, are exposed to movements in market interest rates.

The syndicate manages interest rate risk by primarily investing in short duration financial investments and cash. The investment committee monitors the duration of these assets on a regular basis.

The syndicate also entered into interest rate futures contracts to manage the interest rate risk on bond portfolios.

The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. Duration is a commonly used measure of volatility and we believe gives a better indication than maturity of the likely sensitivity of our portfolio to changes in interest rates.

Duration 31 December 2018	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	204.9	101.0	82.5	60.4	21.5	15.7	–	486.0
Cash at bank and in hand	18.5	–	–	–	–	–	–	18.5
Derivative financial instruments	1.2	–	–	–	–	–	–	1.2
Total	224.6	101.0	82.5	60.4	21.5	15.7	–	**505.7**

Duration 31 December 2017	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	206.7	147.3	69.8	36.2	58.1	18.1	–	536.2
Cash at bank and in hand	27.7	–	–	–	–	–	–	27.7
Derivative financial instruments	1.6	–	–	–	–	–	–	1.6
Total	**236.0**	**147.3**	**69.8**	**36.2**	**58.1**	**18.1**	**–**	**565.5**

Sensitivity analysis

The syndicate holds financial assets and liabilities that are exposed to interest rate risk. Changes in interest yields, with all other variables constant, would result in changes in the capital value of debt and derivative financial instruments. This will affect reported profits and net assets as indicated in the below table:

	Impact on profit for the year ended		Impact on net assets	
Shift in yield (basis points)	2018 $m	2017 $m	2018 $m	2017 $m
150 basis point increase	(12.9)	(9.1)	(12.9)	(9.1)
100 basis point increase	(8.6)	(6.1)	(8.6)	(6.1)
50 basis point increase	(4.3)	(3.0)	(4.3)	(3.0)
50 basis point decrease	4.3	3.0	4.3	3.0
100 basis point decrease	8.6	6.1	8.6	6.1

Price risk

Financial assets and derivatives that are recognised on the balance sheet at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk.

Financial assets include fixed and floating rate debt securities, hedge funds, equity funds and derivative financial assets. The fixed income securities are well diversified across high quality, liquid securities. The price risk associated with these securities is predominantly interest, foreign exchange and credit risk related. The sensitivity to price risk that relates to the syndicates's hedge fund investments and equity linked funds is presented on the next page. The investment committee has established comprehensive guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company.

2 Risk management continued

Listed investments are recognised on the balance sheet at quoted bid price. If the market for the investment is not considered to be active, then the syndicate establishes fair value using valuation techniques (refer to note 10). This includes using recent arm's length market transactions, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

	Impact on profit for the year ended		Impact on net assets	
Change in fair value of hedge funds and equity linked funds	2018 $m	2017 $m	2018 $m	2017 $m
30% increase in fair value	20.8	32.3	20.8	32.3
20% increase in fair value	13.9	21.5	13.9	21.5
10% increase in fair value	6.9	10.8	6.9	10.8
10% decrease in fair value	(6.9)	(10.8)	(6.9)	(10.8)
20% decrease in fair value	(13.9)	(21.5)	(13.9)	(21.5)
30% decrease in fair value	(20.8)	(32.3)	(20.8)	(32.3)

2.4 Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events.

There are a number of business activities for which the syndicate uses the services of a third-party company, such as data entry and credit control. These service providers are selected against rigorous criteria and formal service level agreements are in place, and regularly monitored and reviewed.

Beazley Furlonge Limited also recognises that it is necessary for people, systems and infrastructure to be available to support the syndicate's operations. They have therefore taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. The syndicate operate's a formal disaster recovery plan which, in the event of an incident, allows the movement of critical operations to an alternative location within 24 hours.

Beazley Furlonge Limited actively manages operational risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. Beazley Furlonge Limited also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.

Key components of Beazley Furlonge Limited's operational control environment include:
- solvency capital requirement (SCR) modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

2.5 Credit risk

Credit risk arises from the failure of another party to perform its financial or contractual obligations to the syndicate in a timely manner. The primary sources of credit risk for the syndicate are:
- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the syndicate;
- investments – whereby issuer default results in the syndicate losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash at bank and in hand.

The syndicate's core business is to accept significant insurance risk and the appetite for other risks is low. This protects the syndicate's capital from erosion so that it can meet its insurance liabilities.

The syndicate limits exposure to a single counterparty or a group of counterparties and analyses the geographical locations of exposures when assessing credit risk.

Notes to the financial statements continued

2 Risk management continued

An approval system also exists for all new brokers, and broker performance is carefully monitored. Regular exception reports highlight trading with non-approved brokers, and the syndicate's credit control function frequently assesses the ageing and collectability of debtor balances. Any large, aged items are prioritised and where collection is outsourced, incentives are in place to support these priorities.

The investment committee has established comprehensive guidelines for the syndicate's investment managers regarding the type, duration and quality of investments acceptable to the syndicate. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

The syndicate has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the RSC, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently.

To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. These ratings have been categorised below as used for Lloyd's reporting:

	A.M. Best	Moody's	S&P
Tier 1	A++ to A-	Aaa to A3	AAA to A-
Tier 2	B++ to B-	Baa1 to Ba3	BBB+ to BB-
Tier 3	C++ to C-	B1 to Caa	B+ to CCC
Tier 4	D,E,F,S	Ca to C	R,(U,S) 3

The following tables summarise the syndicate's concentrations of credit risk:

31 December 2018	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	388.0	98.0	–	–	–	486.0
– equity funds	–	–	–	–	30.2	30.2
– hedge funds	–	–	–	–	56.5	56.5
– derivative financial assets	1.2	–	–	–	–	1.2
– illiquid credit assets	–	–	–	–	2.9	2.9
Reinsurers' share of outstanding claims	184.7	–	–	–	1.4	186.1
Insurance debtors	9.4	–	–	–	1.2	10.6
Cash at bank and in hand	–	–	–	–	18.5	18.5
Total	**583.3**	**98.0**	**–**	**–**	**110.7**	**792.0**

31 December 2017	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	442.5	93.7	–	–	–	536.2
– equity funds	–	–	–	–	36.8	36.8
– hedge funds	–	–	–	–	67.9	67.9
– derivative financial instruments	–	–	–	–	1.6	1.6
– illiquid credit assets	–	–	–	–	2.8	2.8
Reinsurers' share of outstanding claims	194.7	–	–	–	1.1	195.8
Insurance debtors	–	–	–	–	177.1	177.1
Cash at bank and in hand	27.7	–	–	–	–	27.7
Total	**664.9**	**93.7**	**–**	**–**	**287.3**	**1,045.9**

2 Risk management continued

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets. An analysis of the overall credit risk exposure indicates that the syndicate has reinsurance assets that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2018 is $0.8m (2017: $0.7m). This $0.8m provision in respect of overdue reinsurance recoverables is included within the total provision of $2.5m (2017: $2.9m). No other financial assets held at year end were impaired.

Financial investments falling within the unrated category comprise hedge funds for which there is no readily available market data to allow classification within the respective tiers. Additionally, some debtors are classified as unrated in accordance with Lloyd's guidelines.

The syndicate has insurance debtors and reinsurance assets that are past due but not impaired at the reporting date. An aged analysis of these is presented below:

31 December 2018	0-3 months past due $m	3-6 months past due $m	6-12 months past due $m	Greater than 1 year past due $m	Total $m
Insurance debtors	12.9	1.8	1.1	–	15.8
Reinsurance assets	0.5	–	–	–	0.5

31 December 2017	0-3 months past due $m	3-6 months past due $m	6-12 months past due $m	Greater than 1 year past due $m	Total $m
Insurance debtors	14.9	2.1	0.9	–	17.9
Reinsurance assets	–	–	–	–	–

2.6 Regulatory and legal risk

Regulatory and legal risk is the risk arising from not complying with regulatory and legal requirements. The operations of Beazley Furlonge Limited are subject to legal and regulatory requirements within the jurisdictions in which it operates and Beazley Furlonge Limited's compliance function is responsible for ensuring that these requirements are adhered to.

2.7 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. In the majority of the cases, these claims are settled from the premiums received.

The syndicate's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event. This means that the syndicate maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return.

The following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities balance held at 31 December:

31 December 2018	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	25.4	21.3	6.2	4.8	57.7	2.0
Political, accident & contingency	7.2	5.3	1.5	1.9	15.9	2.4
Property	39.8	24.7	6.4	6.0	76.9	1.8
Reinsurance	19.5	15.8	5.0	4.7	45.0	2.2
Specialty lines	77.7	131.8	85.0	91.3	385.8	3.5
Net insurance liabilities	**169.6**	**198.9**	**104.1**	**108.7**	**581.2**	

Notes to the financial statements continued

2 Risk management continued

31 December 2017	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	22.3	19.8	5.9	4.6	52.6	2.0
Political, accident & contingency	6.1	4.5	1.0	1.1	12.7	2.3
Property	29.8	22.4	6.5	7.3	66.0	2.2
Reinsurance	15.8	14.7	4.6	4.5	39.6	2.3
Specialty lines	101.4	133.3	67.3	85.2	387.2	3.4
Net insurance liabilities	**175.4**	**194.7**	**85.3**	**102.7**	**558.1**	

The next two tables summarise the carrying amount at reporting date of financial instruments analysed by maturity date.

Maturity 31 December 2018	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	158.4	115.0	92.0	65.2	37.3	18.1	–	486.0
Derivative financial instruments	1.2	–	–	–	–	–	–	1.2
Cash at bank and in hand	18.5	–	–	–	–	–	–	18.5
Other debtors	42.9	–	–	–	–	–	–	42.9
Other creditors	(78.4)	–	–	–	–	–	–	(78.4)
Total	**142.6**	115.0	92.0	65.2	37.3	18.1	–	**470.2**

31 December 2017	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	138.4	157.5	90.2	60.6	65.9	23.6	–	536.2
Derivative financial instruments	1.6	–	–	–	–	–	–	1.6
Cash at bank and in hand	27.7	–	–	–	–	–	–	27.7
Other debtors	21.1	–	–	–	–	–	–	21.1
Other creditors	(120.8)	–	–	–	–	–	–	(120.8)
Total	**68.0**	**157.5**	**90.2**	**60.6**	**65.9**	**23.6**	**–**	**465.8**

2.8 Senior management responsibilities

Management stretch is the risk that business growth might result in an insufficient or overly complicated management team structure, thereby undermining accountability and control within the syndicate. As the syndicate expands its worldwide business in the UK, US, Europe and Asia, management stretch may make the identification, analysis and control of risks more complex. On a day-to-day basis, Beazley Furlonge Limited's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately co-ordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm low risk tolerance by aligning interests to ensure that routine activities, projects and other initiatives are implemented to benefit and protect resources of both local business segments and the syndicate as a whole.

2 Risk management continued

2.9 Capital management

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of syndicate 623 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 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 comprises one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 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), held within and managed within a syndicate (funds in syndicate) and/or as the member's share of the Solvency II members' balances on each syndicate on which it participates.

Notes to the financial statements continued

3 Segmental analysis

2018	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	61.1	29.8	91.2	45.5	250.6	–	478.2
Net premiums written	54.6	25.3	79.1	30.2	215.1	–	404.3
Gross earned premiums	60.6	27.7	89.0	47.2	229.3	–	453.8
Outward reinsurance premiums earned	(6.3)	(4.6)	(13.0)	(16.5)	(33.2)	–	(73.6)
Earned premiums, net of reinsurance	**54.3**	**23.1**	**76.0**	**30.7**	**196.1**	–	**380.2**
Gross claims	(23.1)	(10.0)	(71.8)	(40.7)	(116.4)	–	(262.0)
Reinsurers share	(5.9)	1.2	8.2	19.5	20.6	–	43.6
Claims incurred, net of reinsurance	**(29.0)**	**(8.8)**	**(63.6)**	**(21.2)**	**(95.8)**	–	**(218.4)**
Operating expenses before foreign exchange	(21.3)	(9.4)	(31.7)	(10.2)	(74.0)	–	(146.6)
Technical result before items below	**4.0**	**4.9**	**(19.3)**	**(0.7)**	**26.3**	–	**15.2**
Gain on foreign exchange	–	–	–	–	–	(4.4)	(4.4)
Investment income	–	–	–	–	–	3.5	3.5
Other charges	–	–	–	–	–	(5.2)	(5.2)
Profit for the financial year	**4.0**	**4.9**	**(19.3)**	**(0.7)**	**26.3**	**(6.1)**	**9.1**
Claims ratio	53%	38%	84%	69%	49%	–	57%
Expense ratio	39%	41%	42%	33%	38%	–	39%
Combined ratio	92%	79%	126%	102%	87%	–	96%

2017	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	58.5	25.3	79.4	45.5	224.0	-	432.7
Net premiums written	50.9	20.7	65.7	29.6	192.1	-	359.0
Gross earned premiums	56.8	23.4	76.8	45.6	205.2	-	407.8
Outward reinsurance premiums earned	(7.3)	(4.3)	(13.4)	(15.7)	(31.0)	-	(71.7)
Earned premiums, net of reinsurance	**49.5**	**19.1**	**63.4**	**29.9**	**174.2**	-	**336.1**
Gross claims	(43.5)	(9.9)	(62.0)	(42.5)	(105.3)	-	(263.2)
Reinsurers share	16.4	1.4	7.1	21.1	19.5	-	65.5
Claims incurred, net of reinsurance	**(27.1)**	**(8.5)**	**(54.9)**	**(21.4)**	**(85.8)**	-	**(197.7)**
Operating expenses before foreign exchange	(21.4)	(9.4)	(28.7)	(11.1)	(68.5)	-	(139.1)
Technical result before items below	**1.0**	**1.2**	**(20.2)**	**(2.6)**	**19.9**	-	**(0.7)**
Gain on foreign exchange	-	-	-	-	-	1.3	1.3
Investment income	-	-	-	-	-	18.1	18.1
Other charges	-	-	-	-	-	(6.2)	(6.2)
Profit for the financial year	**1.0**	**1.2**	**(20.2)**	**(2.6)**	**19.9**	**13.2**	**12.5**
Claims ratio	55%	45%	87%	72%	49%	-	59%
Expense ratio	43%	49%	45%	37%	40%	-	41%
Combined ratio	98%	94%	132%	109%	89%	-	100%

3 Segmental analysis continued

The expense ratios shown are calculated excluding any profit or loss on foreign exchange.

The teams are classified in Schedule 3 of the Companies Act 2006 as:

- Marine – marine, aviation and transport;
- Political, accident & contingency – pecuniary loss;
- Property – fire and other damage to property;
- Reinsurance – reinsurance; and
- Specialty lines – third party liability.

All business was underwritten in the UK.

4 Net operating expenses

	2018 $m	2017 $m
Acquisition costs	124.7	118.9
Change in deferred acquisition costs	(4.1)	(8.3)
Members' standard personal expenses	8.9	7.7
Administrative expenses	23.7	27.1
Overriding commission	(6.6)	(6.3)
	146.6	139.1

Administrative expenses include:

	2018 $'000	2017 $'000
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	88.2	84.3
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	214.3	204.8
	302.5	289.1

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to $2.6m (2017: $2.2m).

5 Staff costs

All staff are employed by Beazley Management Limited. The following amounts were recharged to the syndicate in respect of staff costs:

	2018 $m	2017 $m
Wages and salaries	14.7	12.3
Short-term incentive payments	2.9	8.2
Social security costs	3.3	3.9
Pension costs	3.0	3.8
	23.9	28.2

6 Emoluments of the directors of Beazley Furlonge Limited

The directors of Beazley Furlonge Limited, excluding the active underwriter, received the following aggregate remuneration charged to syndicate 623 and included within net operating expenses:

	2018 $m	2017 $m
Emoluments and fees	1.3	2.9
	1.3	2.9

Notes to the financial statements continued

7 Active underwriter's emoluments

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to syndicate 623, was $0.3 (2017: $0.5m).

8 Net investment income

	2018 $m	2017 $m
Interest and dividends on financial investments at fair value through profit or loss	12.0	10.1
Interest on cash and cash equivalents	0.1	0.1
Realised gains/(losses) on financial instruments at fair value though profit or loss	0.1	4.5
Net unrealised fair value gains on financial investments at fair value through profit or loss	(7.7)	4.5
Investment income from financial investments	**4.5**	**19.2**
Investment management expenses	(1.0)	(1.1)
Total net investment income	**3.5**	**18.1**

9 Other charges

	2018 $m	2017 $m
Profit commissions paid to Beazley Furlonge Limited	5.2	6.2
	5.2	**6.2**

10 Financial assets and liabilities

	Market value		Cost	
	2018 $m	2017 $m	2018 $m	2017 $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	189.4	241.8	188.0	250.8
– Quasi-government	5.6	5.8	5.5	5.9
– Supranational	–	1.0	–	1.0
– Corporate bonds				
– Investment grade credit	287.5	280.6	287.9	292.7
– High yield	3.5	7.0	3.5	7.3
Total fixed and floating rate debt securities	486.0	536.2	484.9	557.7
Equity funds	30.2	36.8	30.1	38.3
Hedge funds	56.5	67.9	56.2	70.5
Illiquid funds	2.9	2.8	2.9	2.9
Total capital growth	89.6	107.5	89.2	111.7
Total financial investments at fair value through statement of profit or loss	**575.6**	**643.7**	**574.1**	**669.4**
Derivative financial instruments	1.2	1.6	1.2	1.6
Total financial assets at fair value	**576.8**	**645.3**	**575.3**	**671.0**
Financial liabilities				
Derivative financial instruments	**1.6**	**0.3**	**1.6**	**0.3**

A breakdown of derivative financial instruments is disclosed in note 11.

The investment portfolio above contains $3.7m of short terms deposits separately disclosed in the cash and cash equivalents note (note 13).

10 Financial assets and liabilities continued

Overseas deposits are held as a condition of conducting underwriting business in certain countries.

Fair value measurement

The table below summarises financial assets carried at fair value using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within level 1 are bonds and treasury bills of government and government agencies which are measured based on quoted prices in active markets.

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates). Included within level 2 are government bonds and treasury bills which are not actively traded, corporate bonds, asset backed securities and mortgage-backed securities.

Level 3 – Valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value.

The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 3. The syndicate uses prices and inputs that are current as of the measurement date for valuation of these instruments.

The majority of the syndicate's investments are valued based on quoted market information or other observable market data. The rest of the investments are recorded at fair value which is based on the prices obtained by our administrator who source it from independent pricing sources as set out in our valuation policy. The syndicate records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the administrator with the investment custodians and the investment managers. Where estimates are used, these are calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

The table below analyses financial instruments measured at fair value at 31 December 2018 and 31 December 2017, based on the level in the fair value hierarchy into which the financial instrument is categorised:

2018	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	189.4	–	–	189.4
– Quasi-government	5.6	–	–	5.6
– Supranational	–	–	–	–
– Corporate bonds				
– Investment grade credit	–	287.5	–	287.5
– High yield	–	3.5	–	3.5
– Senior secured loans	–	–	–	–
Equity funds	–	30.2	–	30.2
Hedge funds	–	56.5	–	56.5
Illiquid credit assets	–	–	2.9	2.9
Derivative financial assets	1.2	–	–	1.2
Total financial assets at fair value	**196.2**	**377.7**	**2.9**	**576.8**
Financial liabilities				
Derivative financial instruments	**1.6**	**–**	**–**	**1.6**

Notes to the financial statements continued

10 Financial assets and liabilities continued

2017	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
- Government issued	241.8	–	–	241.8
- Quasi-government	5.8	–	–	5.8
- Supranational	1.0	–	–	1.0
- Corporate bonds				
– Investment grade credit	4.6	276.0	–	280.6
– High yield	–	7.0	–	7.0
Equity funds	–	36.8	–	36.8
Hedge funds	–	67.9	–	67.9
Illiquid credit assets	–	–	2.8	2.8
Derivative financial instruments	1.6	–	–	1.6
Total financial assets at fair value	**254.8**	**387.7**	**2.8**	**645.3**
Financial liabilities				
Derivative financial instruments	0.3	–	–	0.3

The table below shows the movement in level 3 assets:

	2018 $m	2017 $m
As at 1 January	2.8	–
Purchases	–	2.7
Sales	–	–
Total net gains recognised in profit or loss	0.1	0.1
As at 31 December	2.9	2.8

There were no transfer in either direction between level 1 and level 2 in 2018 and 2017.

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 80% (2017: 71%) of these underlying assets were level 1 and the remainder level 2. This enabled us to categorise hedge funds as level 2.

If the inputs used to measure the fair value of an asset or a liability could be categorised in different levels of fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significantly to the entire measurement.

The above qualitative and quantitative disclosure along with the risk management discussions in note 2 enables more accurate evaluation of syndicate's exposure to risk arising from financial instruments.

11 Derivative financial instruments

In 2018 and 2017, the syndicate entered into over-the-counter and exchange traded derivative contracts. The syndicate had the right and intention to settle each contract on a net basis.

	2018		2017	
Derivative financial instrument assets	Gross contract amount $m	Fair value of assets $m	Gross contract amount $m	Fair value of assets $m
Foreign exchange forward contract	68.3	1.2	80.9	1.6
Bond future contracts	–	–	–	–
	68.3	**1.2**	**80.9**	**1.6**

	2018		2017	
Derivative financial instrument liabilities	Gross contract amount $m	Fair value of liabilities $m	Gross contract amount $m	Fair value of liabilities $m
Foreign exchange forward contract	68.4	1.3	66.2	0.3
Bond future contracts	16.1	0.2	–	–
	84.5	**1.5**	**66.2**	**0.3**

Foreign exchange forward contracts

The syndicate entered into over-the-counter foreign exchange forward agreements in order to economically hedge the foreign currency exposure resulting from transactions and balances held in currencies that are different to the functional currency of the syndicate.

Bond future contracts

The syndicate entered in bond futures transactions for the purpose of efficiently managing the term structure of its interest rate exposures. A negative gross contract amount represents a notional short position that generates positive fair value as interest rates rise.

12 Other debtors

	2018 $m	2017 $m
Amounts due from members	15.9	16.2
Amounts due from 6107	12.7	–
Amounts due from 2623	9.1	–
Sundry debtors including taxation	5.2	4.9
	42.9	**21.1**

These balances are due within one year.

13 Cash and cash equivalents

	2018 $m	2017 $m
Cash at bank and in hand	18.5	27.7
Short term deposits	3.7	4.9
	22.2	**32.6**

Notes to the financial statements continued

14 Technical provisions

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2018	224.7	753.9
Movement in the provision	24.4	17.7
Exchange adjustments	(1.7)	(5.1)
As at 31 December 2018	**247.4**	**766.5**
Reinsurers' share of technical provisions		
As at 1 January 2018	36.2	195.8
Movement in the provision	0.3	(9.8)
Exchange adjustments	(0.1)	(0.7)
As at 31 December 2018	**36.4**	**185.3**
Net technical provisions		
As at 1 January 2018	188.5	558.1
As at 31 December 2018	**211.0**	**581.2**

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2017	198.2	682.0
Movement in the provision	24.9	64.0
Exchange adjustments	1.6	7.9
As at 31 December 2017	**224.7**	**753.9**
Reinsurers' share of technical provisions		
As at 1 January 2017	34.1	165.8
Movement in the provision	2.0	28.8
Exchange adjustments	0.1	1.2
As at 31 December 2017	**36.2**	**195.8**
Net technical provisions		
As at 1 January 2017	164.1	516.2
As at 31 December 2017	**188.5**	**558.1**

14 Technical provisions continued

Gross ultimate claims	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %
Marine											
12 months		54.2%	50.4%	54.6%	55.9%	56.5%	57.5%	56.6%	59.5%	68.0%	62.2%
24 months		50.8%	49.7%	47.3%	46.3%	52.0%	46.8%	53.9%	70.4%	62.3%	
36 months		44.0%	44.0%	38.9%	34.7%	44.5%	47.1%	47.1%	65.5%		
48 months		40.5%	42.3%	33.6%	32.2%	42.8%	46.7%	45.2%			
60 months		40.2%	40.3%	35.3%	31.4%	42.1%	55.6%				
72 months		48.5%	40.1%	31.6%	30.6%	41.5%					
84 months		47.7%	42.1%	30.8%	29.9%						
96 months		49.0%	40.6%	29.3%							
108 months		48.9%	41.0%								
120 months		40.2%									
Political, accident & contingency											
12 months		61.1%	61.2%	58.4%	62.2%	57.1%	56.5%	55.1%	55.8%	56.2%	55.7%
24 months		38.5%	40.2%	39.0%	43.7%	41.4%	41.2%	51.9%	40.9%	44.6%	
36 months		34.1%	33.0%	33.5%	39.9%	35.2%	36.0%	47.1%	35.4%		
48 months		29.3%	23.4%	27.4%	38.3%	34.4%	41.9%	47.4%			
60 months		23.2%	22.1%	25.8%	35.7%	39.1%	44.7%				
72 months		17.4%	20.8%	23.1%	35.5%	39.1%					
84 months		17.6%	19.5%	22.6%	34.1%						
96 months		17.6%	19.9%	22.6%							
108 months		17.8%	16.4%								
120 months		17.1%									
Property											
12 months		54.0%	54.3%	54.1%	55.4%	55.3%	53.6%	55.4%	59.2%	72.6%	63.4%
24 months		41.5%	56.2%	46.3%	47.2%	49.3%	48.0%	49.4%	68.7%	88.7%	
36 months		36.1%	53.3%	43.8%	39.4%	45.5%	41.7%	46.2%	71.7%		
48 months		35.0%	50.4%	42.0%	36.2%	45.3%	41.2%	45.2%			
60 months		33.9%	47.4%	41.0%	35.8%	44.7%	40.3%				
72 months		32.9%	46.7%	39.9%	35.3%	46.5%					
84 months		32.2%	45.8%	39.4%	35.4%						
96 months		31.9%	45.5%	39.1%							
108 months		31.7%	45.5%								
120 months		31.5%									
Reinsurance											
12 months		60.7%	68.0%	79.1%	62.9%	59.1%	61.5%	65.8%	66.8%	124.6%	95.3%
24 months		48.1%	140.7%	77.7%	37.5%	45.3%	33.6%	33.7%	41.4%	117.3%	
36 months		40.0%	127.4%	69.5%	32.1%	42.7%	31.0%	25.7%	40.3%		
48 months		39.4%	119.7%	65.7%	31.2%	41.4%	27.8%	25.5%			
60 months		35.2%	123.1%	62.9%	31.2%	38.4%	27.6%				
72 months		32.4%	121.8%	62.7%	31.0%	38.1%					
84 months		31.7%	121.8%	57.9%	31.0%						
96 months		31.8%	120.8%	58.0%							
108 months		31.6%	118.6%								
120 months		31.0%									

Notes to the financial statements continued

14 Technical provisions continued

Gross ultimate claims	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	
Specialty lines												
12 months		72.3%	74.0%	75.7%	74.5%	74.3%	69.9%	69.3%	67.1%	64.9%	66.7%	
24 months		72.3%	73.6%	75.8%	74.6%	73.9%	70.0%	69.1%	66.7%	64.5%		
36 months		71.4%	72.9%	77.6%	72.4%	73.5%	64.8%	67.6%	61.5%			
48 months		71.4%	74.7%	78.1%	66.8%	68.7%	62.4%	65.0%				
60 months		72.0%	73.1%	77.2%	64.5%	65.1%	62.3%					
72 months		71.6%	74.2%	72.7%	62.9%	62.2%						
84 months		72.9%	74.0%	71.4%	61.4%							
96 months		73.4%	70.4%	70.4%								
108 months		72.1%	67.2%									
120 months		72.2%										
Total												
12 months		63.0%	63.8%	66.4%	64.6%	63.6%	62.3%	63.0%	63.7%	72.6%	67.7%	
24 months		56.7%	71.1%	61.7%	56.9%	58.6%	55.1%	57.8%	63.1%	73.2%		
36 months		52.8%	66.7%	59.0%	51.4%	55.3%	51.0%	54.2%	60.0%			
48 months		51.5%	65.0%	57.0%	47.7%	52.8%	49.8%	52.4%				
60 months		50.6%	63.6%	56.3%	46.3%	51.1%	51.3%					
72 months		50.9%	63.6%	53.3%	45.3%	50.2%						
84 months		51.1%	63.5%	51.9%	44.5%							
96 months		51.5%	61.7%	51.1%								
108 months		50.9%	60.0%									
120 months		49.4%										
Gross claims liabilities (Beazley managed level) ($m)	246.0	102.1	78.6	109.4	119.2	206.3	336.6	474.0	842.4	1,323.6	968.8	4,807.0
Less non 623 share ($m)	(202.5)	(86.8)	(64.3)	(89.6)	(97.8)	(171.3)	(281.5)	(394.2)	(720.7)	(1,116.7)	(815.1)	(4,040.5)
Gross claims liabilities, 623 share	43.5	15.3	14.3	19.8	21.4	35.0	55.1	79.8	121.7	206.9	153.7	766.5

14 Technical provisions continued

Net ultimate claims	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %
Marine											
12 months		53.1%	52.0%	55.5%	55.4%	56.1%	56.4%	56.7%	56.7%	57.5%	59.7%
24 months		47.5%	49.2%	47.5%	46.0%	53.2%	48.4%	52.4%	62.5%	61.4%	
36 months		38.7%	44.7%	38.5%	37.4%	47.5%	46.5%	46.8%	61.8%		
48 months		35.0%	42.6%	34.3%	35.0%	45.9%	45.6%	46.5%			
60 months		34.8%	41.0%	35.4%	33.9%	45.3%	46.8%				
72 months		38.4%	40.0%	32.1%	33.2%	44.8%					
84 months		37.7%	42.2%	31.2%	32.8%						
96 months		37.0%	40.6%	30.1%							
108 months		36.8%	41.1%								
120 months		32.7%									
Political, accident & contingency											
12 months		59.5%	57.2%	54.6%	59.0%	54.6%	53.3%	51.9%	52.7%	53.0%	53.0%
24 months		35.2%	37.7%	37.7%	42.3%	40.5%	39.4%	48.8%	37.4%	42.0%	
36 months		31.7%	30.5%	31.7%	38.8%	36.0%	33.5%	46.2%	34.9%		
48 months		27.1%	21.3%	28.8%	38.5%	33.5%	44.4%	45.2%			
60 months		21.3%	20.1%	27.0%	34.8%	35.9%	45.7%				
72 months		16.4%	18.8%	24.3%	34.4%	36.7%					
84 months		16.7%	16.7%	23.6%	33.9%						
96 months		16.6%	17.8%	23.6%							
108 months		16.8%	14.5%								
120 months		16.2%									
Property											
12 months		53.2%	58.3%	59.3%	58.5%	56.8%	54.4%	54.9%	57.6%	76.6%	64.5%
24 months		47.1%	63.2%	56.6%	52.7%	56.4%	50.9%	50.1%	69.6%	94.0%	
36 months		43.5%	62.6%	52.5%	45.7%	52.0%	44.1%	46.7%	71.5%		
48 months		41.3%	56.8%	49.1%	40.9%	49.8%	42.8%	44.6%			
60 months		40.7%	54.3%	47.7%	40.5%	49.2%	42.0%				
72 months		39.4%	53.5%	46.6%	40.1%	51.1%					
84 months		38.9%	53.0%	46.3%	39.9%						
96 months		38.7%	52.8%	46.1%							
108 months		38.5%	52.8%								
120 months		38.4%									
Reinsurance											
12 months		55.5%	76.7%	89.9%	67.0%	57.1%	58.9%	61.4%	60.3%	107.0%	84.5%
24 months		52.7%	124.6%	87.9%	45.5%	52.0%	37.5%	34.1%	38.6%	93.6%	
36 months		46.9%	114.8%	80.2%	39.1%	48.6%	33.6%	24.2%	38.0%		
48 months		46.1%	108.7%	74.7%	37.7%	47.1%	30.7%	24.0%			
60 months		41.3%	118.5%	72.4%	37.7%	43.5%	30.5%				
72 months		38.0%	112.6%	72.3%	37.4%	43.2%					
84 months		37.2%	112.6%	67.1%	37.5%						
96 months		37.2%	112.1%	67.1%							
108 months		37.0%	108.9%								
120 months		36.3%									

Notes to the financial statements continued

14 Technical provisions continued

Net ultimate claims	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	
Specialty lines												
12 months		69.1%	70.7%	72.3%	71.6%	71.0%	67.4%	65.4%	64.7%	63.1%	64.5%	
24 months		69.0%	70.4%	72.3%	71.1%	70.3%	67.5%	65.2%	64.3%	62.5%		
36 months		68.3%	70.0%	72.2%	69.0%	69.5%	63.5%	63.7%	59.3%			
48 months		65.7%	70.3%	70.6%	63.4%	63.1%	59.3%	58.0%				
60 months		66.0%	69.3%	71.2%	62.0%	59.5%	59.0%					
72 months		65.5%	70.8%	70.2%	61.8%	57.8%						
84 months		66.3%	70.6%	69.2%	60.7%							
96 months		66.0%	67.7%	68.3%								
108 months		65.2%	64.8%									
120 months		64.9%										
Total												
12 months		60.6%	64.3%	67.1%	64.1%	62.2%	60.7%	60.3%	60.9%	67.9%	64.8%	
24 months		56.2%	68.4%	63.2%	57.3%	59.8%	55.4%	55.9%	60.9%	69.7%		
36 months		52.7%	65.4%	59.3%	52.3%	56.6%	51.1%	52.5%	58.6%			
48 months		50.1%	62.7%	56.3%	48.4%	53.0%	49.4%	49.4%				
60 months		49.2%	62.5%	56.0%	47.3%	51.0%	49.3%					
72 months		48.7%	62.0%	54.5%	46.9%	50.6%						
84 months		48.7%	62.0%	53.3%	46.3%							
96 months		48.4%	60.4%	52.6%								
108 months		48.0%	58.8%									
120 months		47.1%										
Net claims liabilities (Beazley managed level) ($m)	157.9	61.1	62.3	87.4	102.9	170.1	255.3	356.8	644.4	1,032.4	739.6	3,670.2
Less non 623 share ($m)	(129.3)	(52.1)	(50.8)	(71.7)	(85.6)	(141.1)	(215.9)	(297.7)	(550.6)	(871.5)	(622.7)	(3,089.0)
Net claims liabilities, 623 share ($m)	28.6	9.0	11.5	15.7	17.3	29.0	39.4	59.1	93.8	160.9	116.9	581.2

15 Other creditors

	2018 $m	2017 $m
Amount due to syndicate 3623	0.2	–
Amount due to syndicate 6107	–	4.6
Amount due to syndicate 6050	–	2.4
Profit commissions	5.9	10.1
Net amount due to other related entities	72.3	103.7
	78.4	**120.8**

Profit commissions payable include $5.9m (2017: $10.1m). These creditor balances shown are payable within one year.

16 Related parties transactions

Beazley Furlonge Limited, the managing agency of syndicate 623, is a wholly-owned subsidiary of Beazley plc. The directors of Beazley plc have participated in syndicate 623 indirectly through Beazley Staff Underwriting Limited. Details of the participations are disclosed in the managing agent's report on page 18.

The directors of Beazley Furlonge Limited have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622 and 3623. Syndicate 623 has capacity in 2018 of £351m, as previously disclosed, and writes in parallel with syndicate 2623. Beneficial shareholdings are shown below.

	Shareholding of Beazley plc as at 31 December 2018	Shareholding of Beazley plc as at 31 December 2017
D L Roberts (appointed chairman 22/03/2018)	41,300	41,300
M R Bernacki	293,433	213,659
G P Blunden	40,000	45,000
M L Bride	169,643	313,365
A P Cox (appointed active underwriter 31/12/2018)	785,756	626,947
A Crawford-Ingle	34,207	34,207
N H Furlonge	355,584	655,584
D A Horton	1,716,766	1,712,966
N P Maidment (resigned 31/12/2018)	2,917,188	2,917,188
R Stuchbery	62,500	53,000
D Holt (resigned 22/03/2018)	50,000	50,000
C A Washbourn (resigned 24/12/2018)	465,700	465,700
K W Wilkins	14,000	14,000

Beazley plc has the following service companies (managing general agents) underwriting on behalf of the syndicate:

- Beazley Solutions Limited – (UK & Europe);
- Beazley Solutions International Limited – (Europe);
- Beazley Underwriting Pty Ltd – (Australia);
- Beazley Leviathan Limited – (UK & Europe);
- Beazley USA Services, Inc. – (USA);
- Beazley Canada Limited – (Canada);
- Beazley Limited – (Hong Kong); and
- Beazley Pte Limited – (Singapore)

All of the above companies are coverholders for syndicates 623 and 2623 ('the syndicates').

The syndicates are charged commissions for the type of business underwritten by these companies. The commission is based on the costs incurred by these service companies in generating the business on behalf of the syndicates. As Beazley plc owns 100% of the share capital, it could receive profits from these entities in the future from the business underwritten by the names on syndicate 623.

The syndicate is charged fees from Beazley Management Limited in respect of management services provided. Both Beazley Management Limited and Beazley Furlonge Limited, the managing agent of syndicate 623 are ultimately controlled by Beazley plc.

Notes to the financial statements continued

16 Related parties transactions continued

The managing agent on behalf of the syndicate entered into a binding agreement with related party company Capson Corp Inc during 2018. Premium income received during 2018, in relation to periods when Capson Corp was a related party, were $0.1m (2017:$0.1m).

Since 2010, syndicate 623 ceded part of the international reinsurance account to a special purpose syndicate 6107. In 2015, the syndicates entered into a quota share reinsurance agreement with another special purpose syndicate 6050. Both syndicates 6050 and 6107 are managed by Beazley Furlonge Limited and commissions are received by the syndicates in respect of these transactions. During 2018, syndicate 623 entered into a commutation agreement with syndicate 6050 on the 2016 and 2017 year of account contracts.

The intercompany positions with other syndicates managed by Beazley Furlonge Limited at 31 December 2018 are disclosed above in note 12 (other debtors) and note 15 (other creditors).

Beazley has a 25% equity interest in Falcon Money Management Holdings Limited (Falcon), an asset management company, who, up until 10 October 2014, was investment manager on behalf of syndicate 623. During this period, Falcon charged fees at a market rate for the type of assets managed. Subsequent to 10 October 2014, Beazley Furlonge Limited were the appointed investment manager.

Profit related remuneration for syndicate 623's underwriting staff is charged to the syndicate.
At the balance sheet date, the syndicate has amounts due to managing agent of $2.0m (2017: $0.4m). In addition to this amount, the syndicate is also carrying a profit commission payable to the managing agent of $5.9m (2017: $10.1m).

The managing agent recharged expenses and fees of $50.7 (2017: $52.2m) to the syndicate in the current year.

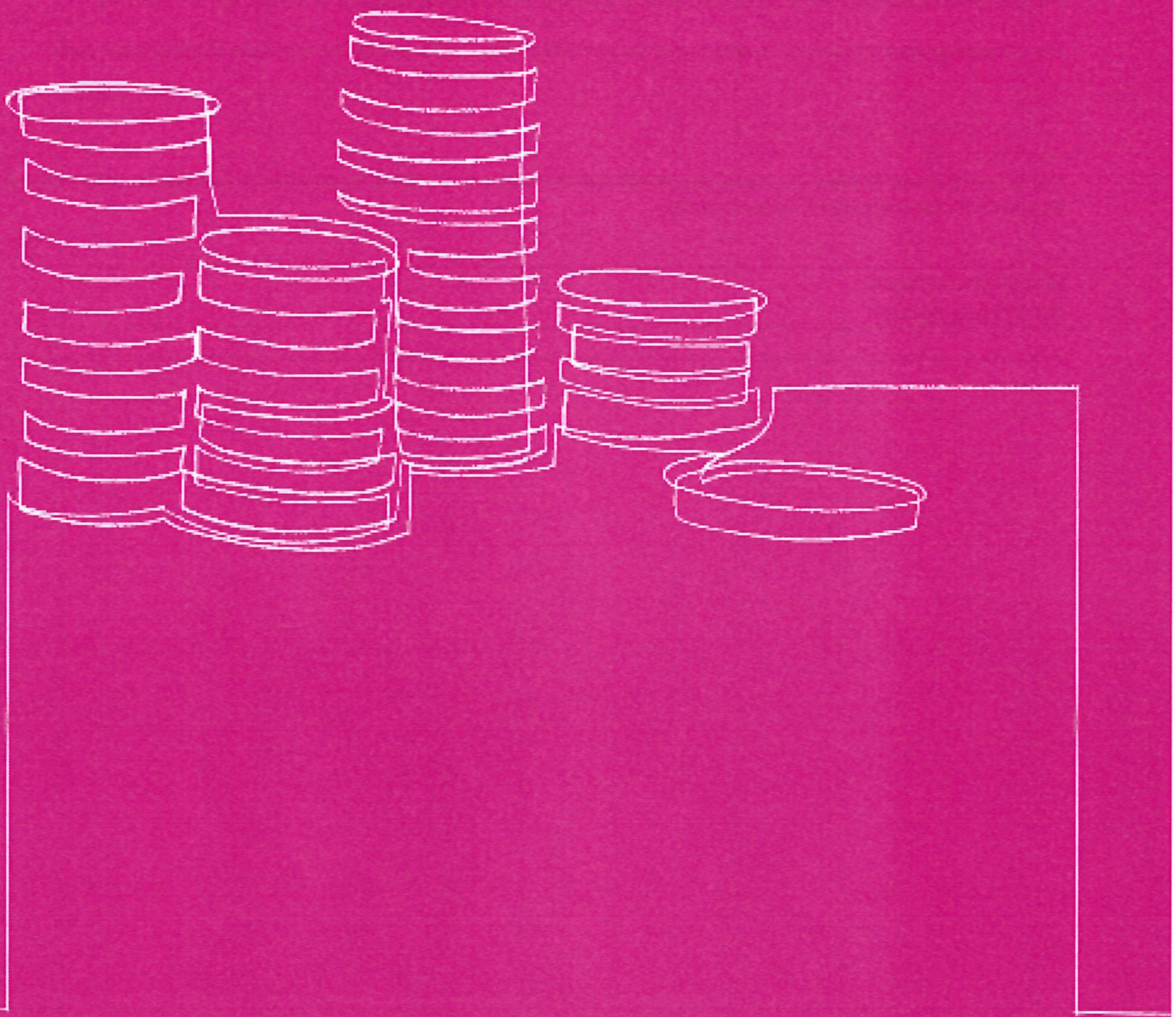
17 Post balance sheet events

Members' funds

The following amounts are proposed to be transferred to members' personal reserve funds. The figures stated are after the deduction of members agent's fees incurred.

	2018 $m	2017 $m
2015 Year of account	–	47.5
2016 Year of account	28.5	–
	28.5	**47.5**

2016 year of account for syndicate 623



Managing agent's report

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 'Lloyd's Regulations') and in accordance with the Syndicate Accounting Byelaw (No.9 of 2005), including Financial Reporting Standard 102 (FRS 102) and 103 Insurance Contracts (FRS 103).

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2016 year of account which has been closed by reinsurance to close at 31 December 2018; consequently the balance sheet represents the assets and liabilities of the 2016 year of account and the profit and loss account reflect the transactions for that year of account during the 36 months period until closure.

Directors

A list of directors of the managing agent who held office during the current year can be found on page 67 of the syndicate annual accounts.

Disclosure of information to the auditor

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

Auditor

KPMG LLP will be subject to mandatory rotation in the UK after the 2018 year end and therefore the Beazley group, in consultation with Beazley Furlonge Limited, decided to conduct a tender for the audit services for the whole group, including its managed syndicates. Following a rigorous process, the managing agent is pleased to announce that it has appointed EY as its auditor for financial periods incepting on or after January 2019. This is subject to Beazley plc receiving approval for EY's appointment from Beazley plc shareholders at its next AGM. KPMG LLP will resign as auditor following completion of the 31 December 2018 audit.

On behalf of the board

M L Bride
Finance director

8 March 2019

Statement of managing agent's responsibilities

The directors of the managing agent are responsible for preparing the syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw. They have elected to prepare the accounts in accordance with 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 underwriting year accounts unless they are satisfied that they give a true and fair view of the result of the underwriting year at closure. In preparing these accounts, the directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected is used;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts;
- 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. As explained in note 1 the directors of the managing agent have not prepared the underwriting year accounts on a going concern basis.

The directors of the managing agent are responsible for keeping adequate and proper 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 underwriting year accounts 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 accounts 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.

On behalf of the board

M L Bride
Finance director

8 March 2019

Independent auditor's report to the members of syndicate 623 2016 closed year of account

Opinion

We have audited the Syndicate underwriting year accounts for the 2016 year of account of Syndicate 623 for the three year period ended 31 December 2018, which comprise the Profit or loss account, Balance sheet, Cash flow statement, Statement of changes in members' balances and related notes, including the accounting policies in note 1. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as modified by the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and the Lloyd's Syndicate Accounting Byelaw. Note 1 to the financial statements further explains the basis of preparation of the underwriting year accounts.

This report is made solely to the Syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw. 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 and the Syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors of the managing agent and auditor

As explained more fully in the statement of the directors of the Managing Agent's responsibilities set out on page 55, the directors of the Managing Agent are responsible for the preparation of the underwriting year accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express and opinion on, the underwriting year accounts in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the underwriting year of accounts

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate.**

Opinion on underwriting year accounts

In our opinion the underwriting year accounts:

- give a true and fair view of the syndicate's profit for the 2016 closed year; and
- have been properly prepared in accordance with the requirements of the Lloyd's Syndicate Accounting Byelaw.

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 to you if, in our opinion:

- adequate and proper accounting records have not been kept by the directors of the managing agent on behalf of the syndicate; or
- the underwriting year accounts 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 these respects.

Elizabeth Cox

Elizabeth Cox (Senior ~~Statutory~~ Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
E14 5GL
London

8 March 2019

Profit or loss account

2016 year of account for the 36 months ended 31 December 2018

	Notes	2016 year of account $m
Gross premiums written	2	396.0
Outward reinsurance premiums		(69.1)
Earned premiums, net of reinsurance	2	**326.9**
Allocated investment return transferred from the non-technical account		9.2
Reinsurance to close premiums received, net of reinsurance	3	309.6
		318.8
Gross claims paid		(215.2)
Reinsurers' share		43.0
Claims incurred, net of reinsurance		**(172.2)**
Reinsurance to close premiums payable, net of reinsurance	4	(299.9)
		(472.1)
Net operating expenses	6	(134.6)
Balance on the technical account	2	**39.0**
Investment income		10.3
Investment expenses and charges	7	(1.1)
		9.2
Allocated investment return transferred to the technical account		(9.2)
Other charges		(5.8)
Loss on foreign exchange		(4.7)
Profit for the 2016 closed year of account	5	**28.5**
Syndicate allocated capacity (£m)		257.3
Profit for the 2016 closed year of account (£m)		22.3
Return on capacity		8.7%

There are no recognised gains or losses in the accounting period other than those dealt with within the technical account above.

Balance sheet

closed at 31 December 2018

	Notes	2016 year of account $m
Assets		
Financial assets at fair value	8	257.8
Debtors	9	128.1
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	4	100.6
Prepayments and accrued income		0.6
Cash at bank and in hand		8.1
Total assets		**495.2**
Liabilities		
Amounts due to members	10	28.5
Reinsurance to close premium payable to close the account – gross amount	4	397.2
Creditors	11	69.0
Accruals and deferred income		0.5
Total liabilities		**495.2**

The underwriting year accounts on pages 57 to 65 were approved by the board of directors on 8 March 2019 and were signed on its behalf by:

A P Cox
Active underwriter

M L Bride
Finance director

Cash flow statement

2016 year of account for the 36 months ended 31 December 2018

	2016 year of account $m
Reconciliation of profit for the financial year to net cash inflow from operating activities	
Profit for the financial year	28.5
Increase in gross reinsurance to close payable	397.2
Increase in reinsurers' share of reinsurance to close	(100.6)
Increase in debtors	(128.1)
Increase in creditors	69.0
Increase in prepayments	(0.6)
Increase in accruals	0.5
Investment return	(9.2)
Net cash flows from operating activities	**256.7**
Net purchase of financial instruments	(257.8)
Cash received from investment income	9.2
Net cash from investing activities	**(248.6)**
Transfer to members in respect of underwriting participations	–
Net cash from financing activities	**–**
Net increase in cash and cash equivalents	**8.1**
Cash and cash equivalents at 1 January 2016	–
Cash and cash equivalents at 31 December 2018	**8.1**

Statement of changes in members' balances

for the 36 months ended 31 December 2018

	2016 year of account $m
Profit for the 2016 closed year of account	28.5
Amounts due to members at 31 December 2018	**28.5**

Members participate on syndicates by reference to years of account 'YOA' and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Notes to the syndicate underwriting year accounts

closed at 31 December 2018

1 Accounting policies

Basis of preparation

These syndicate underwriting year accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') and applicable Accounting Standards in the United Kingdom, including Financial Reporting Standard 102 (FRS 102) and Insurance Contracts 103 (FRS 103).

Whilst the directors of the managing agent have a reasonable expectation that the syndicate has adequate resources to continue in operational existence for the foreseeable future, these financial statements represent the participation of members in the 2016 year of account which closed on 31 December 2018. The accumulated profits of the 2016 year of account will be distributed shortly after publication of these accounts. Therefore the 2016 year of account is not continuing to trade and, accordingly, the directors have not adopted the going concern basis in the preparation of these accounts. The amounts reported would be identical if the accounts had been prepared on a going concern basis as the 2016 year of account will be closed by payment of a reinsurance to close premium, as outlined in note (a) below, which is consistent with the normal course of business for a Lloyd's syndicate and with the approach we have applied to earlier underwriting years.

The principal accounting policies applied in the preparation of these syndicate underwriting year accounts are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in US dollars, being the syndicate's functional currency, and in millions, unless noted otherwise.

Underwriting transactions

a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

b) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums in respect of reinsurance ceded are attributed to the same year as the original risk being protected. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified to the syndicate year of account.

c) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

d) A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

e) The reinsurance to close premium is determined by reference to outstanding liabilities, including claims incurred but not yet reported, relating to the closed year and to all previous closed years reinsured therein. Although the estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium includes a provision for unearned premiums and unexpired risks at the balance sheet date, net of deferred acquisition costs.

Comparatives

f) Comparatives are not provided in these accounts as each syndicate year of account is a separate annual venture.

Notes to the syndicate underwriting year accounts *continued*

1 Accounting policies *continued*

Investment return

g) The gross investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year is allocated to years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

h) The investment return is wholly allocated to the technical account.

i) Investments are valued at market value at the balance sheet date. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date.

Syndicate operating expenses

j) Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

k) Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned as follows:
- salaries and related costs – according to the staff time spent on dealing with syndicate matters;
- accommodation costs – proportioned based on the overall staff costs allocation above; and
- other costs – as appropriate in each case.

Taxation

l) 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 income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with the Inland Revenue.

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

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

n) The syndicate operates in four separate currency funds of sterling, euro, US dollars and Canadian dollars. Items expressed in sterling, euro and Canadian dollars are translated to US dollars at the three years' average rates of exchange ruling at the balance sheet date. The euro, US dollar and Canadian dollar three years' average exchange rates ruling at 31 December 2018 are euro 0.88 sterling 0.75 and Canadian dollar 1.31.

2 Segmental analysis

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

2016 year of account	Marine $m	Political, accident and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	54.1	25.3	75.8	44.3	196.5	–	396.0
Outward reinsurance premiums	(6.3)	(4.5)	(12.1)	(14.5)	(31.7)	–	(69.1)
Net earned premiums	47.8	20.8	63.7	29.8	164.8	–	326.9
Net claims	(25.0)	(6.2)	(39.1)	(9.3)	(82.9)	–	(162.5)
Operating expenses	(21.6)	(10.3)	(29.7)	(11.5)	(61.5)	–	(134.6)
Technical result before investment income	1.2	4.3	(5.1)	9.0	20.4	–	29.8
Investment income	–	–	–	–	–	9.2	9.2
Balance on technical account	**1.2**	**4.3**	**(5.1)**	**9.0**	**20.3**	**9.2**	**39.0**
Claims ratio	52%	30%	61%	31%	50%	-	50%
Expense ratio	45%	49%	47%	39%	38%	-	41%
Combined ratio	97%	79%	108%	70%	88%	-	91%

The above teams are classified in Schedule 3 of the Companies Act 2006 as:

- Marine – marine, aviation and transport
- Political, accident and contingency – pecuniary loss
- Property – fire and other damage to property
- Reinsurance – reinsurance
- Specialty lines – third party liability

All business was underwritten in the UK.

3 Reinsurance to close premiums received

	2016 year of account $m
Gross reinsurance to close premiums received	413.5
Reinsurance recoveries anticipated	(103.9)
Reinsurance to close premiums received, from 2015 and earlier, net of reinsurance	**309.6**

4 Reinsurance to close premiums payable

	2016 year of account $m
Gross reinsurance to close premiums payable	400.5
Reinsurance recoveries anticipated	(100.6)
Foreign exchange	(3.3)
Reinsurance to close premiums payable to 2017, net of reinsurance	**296.6**

	Reported $m	IBNR $m	Total $m
Reinsurance to close premium payable	154.6	242.6	397.2
Reinsurance recoveries anticipated	(36.7)	(63.9)	(100.6)
Reinsurance to close premiums payable, net of reinsurance	**117.9**	**178.7**	**296.6**

Notes to the syndicate underwriting year accounts *continued*

5 Analysis of the 2016 year of account result

	2016 year of account $m
Amount attributable to business allocated to the 2016 year of account	(0.5)
Surplus on the reinsurance to close for the 2015 year of account	29.0
	28.5

6 Net operating expenses

	2016 year of account $m
Acquisition costs	102.5
Members' standard personal expenses	13.8
Administrative expenses	18.3
	134.6

Administrative expenses include:

Audit services	0.1

7 Investment expenses and charges

	2016 year of account $m
Investment management expenses	1.1
	1.1

8 Financial assets

Financial assets at fair value	2016 year of account $m
Fixed and floating debt securities	217.9
Equity linked funds	13.3
Hedge funds	24.8
Illiquid credit assets	1.3
Rights under derivative contracts	0.5
	257.8

9 Debtors

	2016 year of account $m
Net amounts due from other related entities	–
Other debtors, including taxation	128.1
	128.1

These balances are due within one year. All insurance debtors relate to business transacted with brokers and intermediaries.

10 Amounts due to members

	2016 year of account $m
Profit for the 2016 closed year of account	28.5
Amounts due to members at 31 December 2018	**28.5**

Amounts are stated after the deduction of members' agents' fees.

11 Creditors

	2016 year of account $m
Profit commission payable	5.9
Net amounts due to other related entities	64.4
Other creditors	(1.3)
	69.0

The above balances are payable within one year.

12 Related party transactions

Please refer to page 51 for further details of related party transactions for the 2016 year of account.

Seven-year summary of closed year results

at 31 December 2018

	2016	2015	2014	2013	2012	2011	2010
Syndicate allocated capacity – £'000	257,277	230,252	242,760	224,698	214,167	214,841	215,724
Syndicate allocated capacity – $'000	403,924	393,730	368,995	352,775	325,533	337,300	323,587
Capacity utilised	79%	76%	79%	84%	84%	86%	88%
Aggregate net premiums – $'000	251,561	230,828	235,380	234,093	204,582	223,392	216,294
Underwriting profit as a percentage of gross premiums	19.3%	25.5%	27.9%	23.5%	31.3%	20.3%	14.2%
Return on capacity	8.7%	15.5%	18.6%	10.8%	13.6%	10.3%	6.1%
Results for an illustrative £10,000 share							
Gross premiums	12,464	12,958	11,957	13,189	13,092	12,805	13,021
Net premiums	9,778	10,025	9,696	10,418	9,909	9,584	10,109
Reinsurance to close from an earlier account	12,034	13,560	13,216	14,561	16,181	16,422	15,920
Net claims	(6,692)	(6,335)	(5,755)	(6,545)	(6,199)	(7,215)	(7,093)
Reinsurance to close the year of account	(11,656)	(13,242)	(13,106)	(14,576)	(15,698)	(16,021)	(16,339)
Underwriting profit	3,464	4,008	4,051	3,858	4,193	2,770	2,597
(Loss)/profit on foreign exchange	(136)	(40)	326	22	(38)	(49)	(5)
Syndicate operating expenses	(2,102)	(1,843)	(1,890)	(1,984)	(1,923)	(756)	(1,485)
Balance on technical account	1,226	2,125	2,487	1,896	2,232	1,965	1,107
Gross investment return	356	582	494	337	528	310	311
Profit before personal expenses	1,582	2,707	2,981	2,233	2,760	2,275	1,418
Illustrative personal expenses							
Illustrative personal expenses	(246)	(233)	(190)	(214)	(188)	(220)	(222)
Managing agent's profit commission	(230)	(411)	(427)	(383)	(449)	(352)	(208)
Profit after illustrative profit commission and personal expenses ($)	1,106	2,063	2,364	1,636	2,123	1,703	988
Profit after illustrative profit commission and personal expenses (£)	866	1,548	1,862	1,083	1,360	1,026	606

Notes:
1 The illustrative profit commission and personal expenses are estimates of amounts which might be charged on an illustrative share of £10,000. The agency agreements for 1991 and subsequent years of account only provide for the deduction of fees and profit commission on behalf of the managing agent.
2 The effect of any minimum charges on personal expenses or deficit clauses on profit commission have been ignored.
3 Internal claims settlement expenses have been included in 'net claims'.
4 The above figures are stated before members' agents' fees.
5 Profit after illustrative profit commission and personal expenses is shown in dollars and converted to sterling at the closing rate.
6 Gross and net premium amounts shown above are net of brokerage expenses.

Managing agent corporate information

Beazley Furlonge Limited has been the managing agent of syndicate 623 throughout the period covered by this report and the registered office is Plantation Place South, 60 Great Tower Street, London EC3R 5AD.

Directors

D L Roberts[1] (appointed chairman 22/03/2018)
M R Bernacki
G P Blunden[1]
M L Bride – finance director
A P Cox (appointed active underwriter 31/12/2018)
A Crawford-Ingle[1]
N H Furlonge[1]
D A Horton – chief executive officer
N P Maidment (resigned 31/12/2018)
R Stuchbery[1]
D Holt[1] (resigned 22/03/2018)
C A Washbourn (resigned 24/12/2018)
K W Wilkins[1]

1 Non-executive director.

Company secretary

C P Oldridge

Managing agent's registered office

Plantation Place South
60 Great Tower Street
London
EC3R 5AD
United Kingdom

Registered number

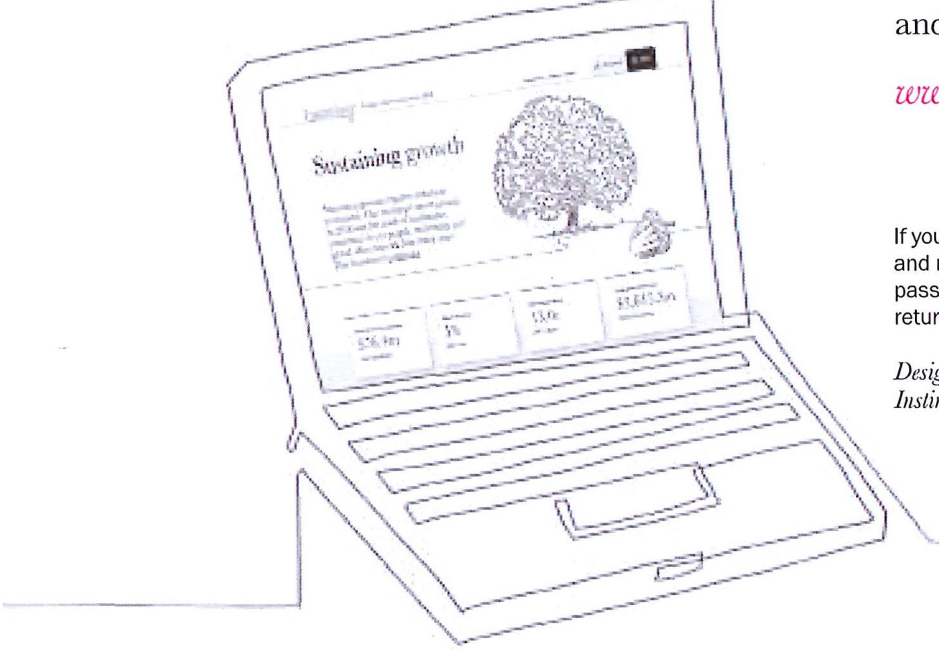
01893407

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Banker

Deutsche Bank AG
6 Bishopsgate
London
EC2N 4DA



Beazley online annual report and accounts 2018

www.reports.beazley.com/2018

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