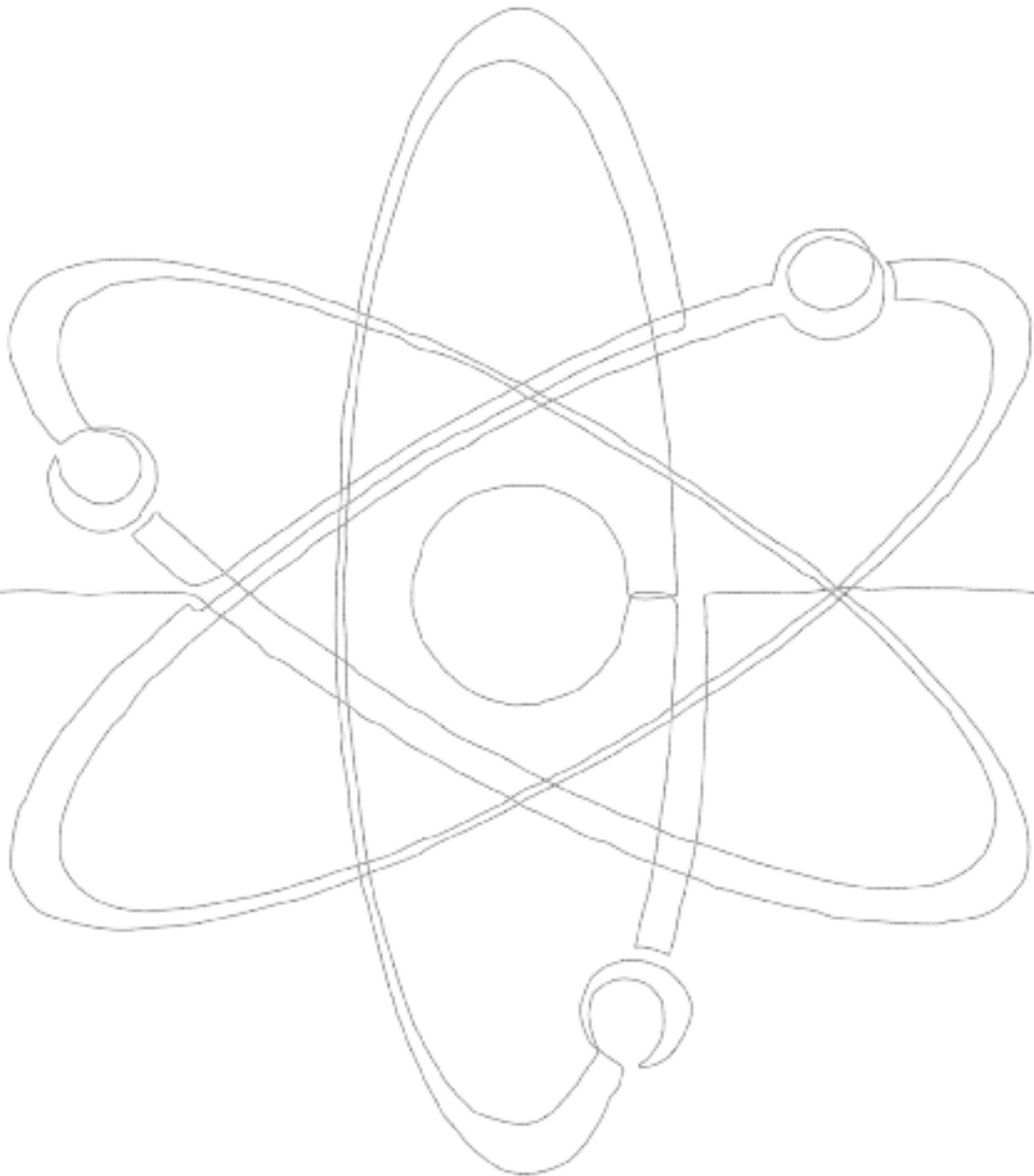


At our core...



|| Welcome to our Annual report 2020

From the Lloyd's market to climate change, internal structure to management succession, change is a constant and navigating these is something that Beazley increased focus on in 2020. Having navigated the challenges of the pandemic, change brings opportunities and the steps Beazley has taken mean it is ready to take advantage of these opportunities.

Contents

01	Highlights
02	Strategic report of the managing agent
13	Managing agent's report
21	Statement of managing agent's responsibilities
22	Independent auditor's report to the members of syndicate 623
25	Statement of comprehensive income
26	Statement of changes in members' balances
27	Balance sheet at 31 December 2020
28	Cash flow statement
29	Notes to the syndicate annual accounts
56	2018 year of account for syndicate 623
57	Managing agent's report
58	Statement of managing agent's responsibilities
59	Independent auditor's report to the members of Syndicate 623 – 2018 closed year of account
62	Profit or loss account
63	Balance sheet closed at 31 December 2020
64	Cash flow statement
65	Statement of changes in members' balances
66	Notes to the 2018 syndicate underwriting year accounts
71	Seven-year summary of closed year results at 31 December 2020
72	Managing agent corporate information

Highlights

Syndicate capacity

£423.2m

(2019: £366.2m)

Loss for the financial year

\$28.5m

(2019: Profit \$28.0m)

Combined ratio

110%

(2019: 99%)

Gross premiums written

\$589.9m

(2019: \$518.4m)

Renewal rate increase

15%

(2019: 6%)

Cash and investments

\$712.5m

(2019: \$555.3m)

Net premiums written

\$488.9m

(2019: \$427.0m)

Claims ratio

75%

(2019: 61%)

Annualised investment return

2.9%

(2019: 5.0%)

Earned premiums, net of reinsurance

\$455.9m

(2019: \$404.9m)

Expense ratio

35%

(2019: 38%)

Strategic report of the managing agent

Overview

The balanced portfolio of syndicate 623 (the 'syndicate') has underpinned its underwriting performance in recent years. However, the syndicate made a loss of \$28.5m (2019: profit \$28.0m) for the year ended 31 December 2020 mainly due to the COVID-19 pandemic. The syndicate has 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 \$93m in 2020. The risk budget will increase to \$111m on the 2021 underwriting year to maintain the risk appetite relative to capacity. Gross premiums written increased to \$589.9m (2019: \$518.4m).

The capacities of the syndicates managed by Beazley Furlong Ltd are as follows:

	2020 £m	2019 £m
2623	1,932.4	1,624.0
623	422.6	366.2
3623	71.9	69.3
6107	69.5	67.6
3622	25.9	25.0
5623	83.5	63.1
Total	2,605.8	2,215.2

Year of account results

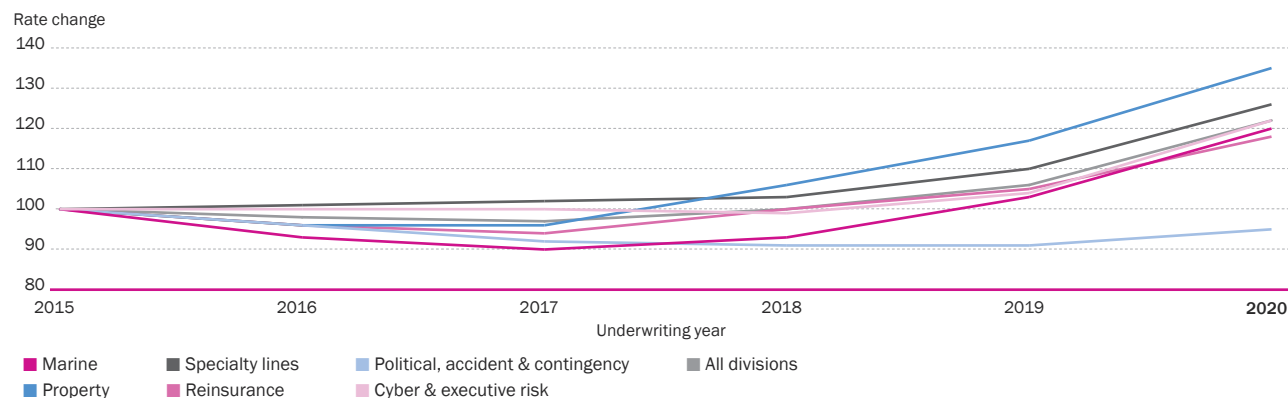
The 2018 year of account was closed with a loss on capacity of 2.7%. The syndicate has been taking action to address underperforming classes of business for several years and the syndicate has seen rates rise steadily as the market responded to elevated levels of claims activity and claims inflation. These increased claims have adversely affected the cyber and executive risk book and combined with some further deterioration on CyEx claims, have resulted in a claims strengthening on the 2018 year of account. The 2019 year of account currently forecasts to close with a 2.5% loss on capacity having been adversely affected by claims experience related to the COVID-19 global pandemic, particularly in the contingency book. The 2020 year of account, which is still in its early stages of development, has already been impacted by natural catastrophe losses from Hurricanes Laura, Sally, Delta and Zeta in addition to COVID-19 claims which affects mainly 2019 and 2020 year of accounts.

Rating environment

The loss activity during 2018 and 2019 had a continued positive effect on the rating environment with rates increasing by 15% in 2020 across the portfolio (2019: 6%). Most of our lines of business saw increases in rates compared to 2019, with marine increasing by 16%, property increasing by 15%, reinsurance rates increasing by 13%, specialty lines increasing by 15% and cyber & executive risk increasing by 18%. Rates on renewals in our political, accident & contingency division also increased by 4%.

An overview of the syndicate's performance by division is presented between pages 7 and 12.

Cumulative renewal rate changes since 2015 (%)



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 deteriorated in 2020 to 110% (2019: 99%) driven by the increase in the claims ratio. 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 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 claims ratio deteriorated to 75% in 2020 (2019: 61%) as the syndicate was heavily impacted by the volume of COVID-19 related claims in this unprecedented year. The contingency book was most severely impacted as cancelled events were the main driver of the syndicate losses, when the hospitality and events industries were shut by the enforced lockdown. The syndicate was also impacted by losses in employment practices liability (EPL) and the rise in ransomware claims in the cyber and executive risk division. 2020 also saw the syndicate experience a number of natural catastrophe losses as the active hurricane season in the US brought losses from Hurricanes Laura, Sally, Delta and Zeta. These claims, while large, were not outside our range for such types of natural catastrophes. A combination of the above has resulted in an increase in syndicate net claims in 2020 to \$341.3m (2019: \$247.9m).

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 5.8% at the end of 2020 (2019: 5.8%).

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 2020 the syndicate released prior year reserves of \$16.5m (2019: \$3.7m). Specialty Lines and cyber & executive risk had releases of \$8.2m and \$1.5m respectively. Both specialty lines and cyber & executive risk have been impacted over the past few years by the increased claims seen on their liability books resulting in decreased releases. Action taken in the marine division to remediate selected areas of the account, including the closing of the UK marine portfolio in January 2020, have resulted in a release of \$1.9m in the division. Both the property and reinsurance divisions have benefitted from releases on some of the 2019 natural catastrophe events, namely Storm Dorian in the US and Typhoons Hagibis and Faxai in Japan.

These reserve releases are shown by division in the table below:

	2020 \$m	2019 \$m
Cyber & Executive Risk	1.5	3.5
Marine	1.9	(1.5)
Political, Accident & Contingency	(0.7)	2.7
Property	0.7	(3.5)
Reinsurance	4.9	(6.6)
Specialty Lines	8.2	9.1
Total	16.5	3.7
Releases as a percentage of net earned premium	3.6%	0.9%

Strategic report of the managing agent continued

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses increased from \$153.3m to \$161.6m in 2020. The breakdown of these costs is shown below:

	2020 \$m	2019 \$m
Brokerage costs	127.0	117.7
Other acquisition costs	12.3	13.0
Total acquisition costs	139.3	130.7
Administrative and other expenses	22.3	22.6
Net operating expenses¹	161.6	153.3

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 2020 is 35% (2019: 38%).

Investment performance

Syndicate financial assets returned \$18.3m, or 2.9% in 2020 (2019: \$28.9m, or 5.0%). This outcome is ahead of our expectations at the beginning of the year, but belies the significant volatility which our investments have experienced during the period, reflecting the unprecedented global background.

Most of our fixed income securities, which form the majority of our investments, are exposed to movements in US risk-free yields. The value of these investments rose as risk-free yields declined to near zero in the first quarter, driven by expectations that COVID-19 would impair economic activity, requiring very low interest rates for an extended period. However, these gains were more than offset by losses on our other investments in the first quarter. Global equity markets declined by more than 20% in this period, but more significant for Beazley was a widening of credit spreads on our US corporate debt investments: even short-dated securities with investment grade credit ratings saw spreads increase by more than 200 basis points in Q1, generating significant losses in these securities.

Notwithstanding the dramatic financial market volatility as COVID-19 emerged in the first part of the year, the subsequent recovery in investment performance has arguably been more remarkable. Fiscal intervention from governments, monetary support from central banks and the promise of an extended period of low interest rates have combined to generate strong positive sentiment from investors through the last three quarters of the year, despite the continuing impact of COVID-19 on the global economy. Global equities rallied by more than 45% in this period, while credit spreads on investment grade securities reversed all of their earlier widening and ended the year lower than they began.

Fixed and floating rate debt securities are the mainstay of our investment portfolio and represented 88% of our investment assets as at December 2020 (2019: 87.1%). These investments (including cash and cash equivalents and derivatives) returned 2.7% in 2020, (2019: 4.5%), ultimately driven by the decline in risk-free yields in the first quarter, while our more volatile capital growth investments returned 3.9% (2019: 8.2%), helped by the robust recovery in equities, as well as a strong performance from our hedge fund portfolio.

Looking ahead, available yields on the high credit quality debt securities in which we primarily invest are now very low (two-year US Treasury notes yield less than 0.2%), highlighting the modest level of returns we expect to be achievable in the near term. More volatile asset classes may offer better returns, but uncertainty about the global economic outlook remains elevated, increasing the risk of further volatility in these securities. We continue to develop our investment strategy to balance the search for return against the need to effectively control risk.

At 31 December 2020, the weighted average duration of fixed income investments was 1.8 years (2019: 1.8 years).

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

	31 Dec 2020		31 Dec 2019	
	\$m	%	\$m	%
Cash at bank and in hand	13.1	1.8	25.4	4.6
Fixed and floating rate debt securities				
– Government, quasi-government and supranational	327.6	46.0	166.9	30.0
– Corporate bonds				
– Investment grade credit	249.0	34.9	264.1	47.6
– High yield	25.7	3.6	24.9	4.5
Syndicate loan to Lloyd's central fund	8.1	1.1	1.6	0.3
Derivative financial assets	4.0	0.6	0.6	0.1
Core portfolio	627.5	88.0	483.5	87.1
Equity linked funds	21.1	3.0	15.0	2.7
Hedge funds	59.0	8.3	53.7	9.6
Illiquid credit assets	4.9	0.7	3.1	0.6
Total capital growth assets	85.0	12.0	71.8	12.9
Total	712.5	100.0	555.3	100.0

Comparison of return by major asset class:

	31 Dec 2020		31 Dec 2019	
	\$m	%	\$m	%
Core portfolio	15.2	2.7	22.2	4.5
Capital growth assets	3.1	3.9	6.6	8.2
Overall return	18.3	2.9	28.9	5.0

Reinsurance

In 2020, the amount spent on outward reinsurance was \$101.0m (2019: \$91.4m).

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.

Strategic report of the managing agent continued

Outlook

The 2019 year of account is currently forecast to close at a loss on capacity of 2.5%, due in the main to the challenging claims environment driven by the COVID-19 pandemic losses.

The 2020 underwriting year has also been impacted by the COVID-19 pandemic and natural catastrophes including Hurricanes Laura, Sally, Delta and Zeta. However these estimates are within the syndicate's expected range for such events.

During 2020 the syndicate also experienced some reserve releases on prior year catastrophe events, namely Typhoons Hagibis and Faxai and Storm Dorian.

The year demonstrated the importance of flexibility and the need for a clear and consistent strategy. The strength of the syndicate's diversified business and significant growth in many classes in 2020 is a testament to the expertise of the managing agent's people and a long-term strategic underwriting approach. It is anticipated that the favourable rating environment will continue throughout 2021 and that the syndicate will continue to pursue growth in areas where it can deliver consistent value for the members while managing its claims and expenses.

Despite the harsh effects of the pandemic and a deep global recession, the managing agent is optimistic that the positive market change of the last 12 months and the resilience that the managing agent has demonstrated puts the syndicate on a strong financial and operational footing to support the members and to grow profitably in 2021. The syndicate expects to deliver a low-90s combined ratio for 2021 assuming average claims experience.

A P Cox

Active Underwriter

2 March 2021

Cyber & Executive Risk (CyEx)

	2020 \$m	2019 \$m
Gross premiums written	148.4	121.8
Net premiums written	123.6	102.5
Earned premiums, net of reinsurance	113.1	94.4
Claims incurred, net of reinsurance	(76.6)	(56.2)
Net operating expenses	(33.8)	(31.2)
Technical result	2.7	7.0
Claims ratio	68%	60%
Expense ratio	30%	33%
Combined ratio	98%	93%
Renewal rate change	18%	5%

The syndicate's CyEx division under a new leadership structure led by Bethany Greenwood, grew premiums by 22% and achieved a combined ratio of 98% (2019: 93%).

Now in its second full year as a standalone division, CyEx brings together the executive risks (US D&O, EPL, and Crime insurance) with global M&A and Cyber and Technology underwriting. In a year of contrasts across the division, Executive Risk experienced its sharpest rate rises to date even as competition remained steady, with rates expected to hold strong into 2021. This came after more than a decade of market inertia in which premiums failed to keep pace with higher litigation costs, settlement amounts, jury payouts and increased claims aligned to high-profile social justice movements. Following several years in planning for the D&O market turn, rates grew by 53%, enabling the syndicate to grow while remaining highly selective and diversified in our appetite.

Crime, to a much lower extent, followed the D&O market up while M&A also saw rates rise following a slow start to the year when acquisition deals dried up in the first lockdown. The syndicate EPL book has been the most heavily remediated area, where exposure to ongoing social inflation has meant increased frequency and higher claims costs.

By contrast cyber rates began to harden in the second half of the year with over 20% rate increases in the fourth quarter. The past year has seen significant changes to the cyber market landscape, with reductions in capacity, underwriting restrictions, tightening of terms and conditions, and rate change. The biggest influence has been a significant rise in frequency and severity of ransomware claims, which our team had been anticipating and adjusting for in our underwriting. The managing agent continues to focus on a tailored approach for each client, which reduces loss frequency and improves profitability. The managing agent's approach includes scanning clients during the policy lifecycle for vulnerabilities to help identify risks and threats; offering advice to help proactively correct vulnerabilities; and increasing rate to fully reflect the risk. The managing agent's goal remains to improve overall risk management of the syndicate's clients by raising the standards to better detect, prevent and respond to these events.

Strategic report of the managing agent continued

Marine

	2020 \$m	2019 \$m
Gross premiums written	70.5	65.3
Net premiums written	64.5	46.8
Earned premiums, net of reinsurance	62.1	46.9
Claims incurred, net of reinsurance	(33.1)	(26.4)
Net operating expenses	(22.2)	(22.8)
Technical result	6.8	(2.3)
Claims ratio	53%	56%
Expense ratio	36%	49%
Combined ratio	89%	105%
Renewal rate change	16%	11%

Following several years of careful cycle management amid soft pricing and market losses, the marine division combined ratio was 89% (2019: 105%) on premiums that grew 8% to \$70.5m (2019: \$65.3m) as market conditions improved across most of the portfolio.

Hardening rates in marine have been a long time coming and have been assisted by Lloyd's action to correct underperforming classes and a subsequent contraction of the market.

The syndicate has seen some benefit from the improved trading environment. Action has also been taken to remediate selected areas of the account, resulting in the syndicate exiting the UK Marine portfolio in January 2020.

Rate hardening has been particularly strong across the aviation and cargo portfolios, with average rate rises of 30% and 18% respectively. Both had previously activated strong cycle management plans and have weathered turbulence over the past two years, which has seen a number of competitors reducing capacity or withdrawing from the market altogether.

The marine war account also saw considerable growth in 2020, largely due to increased claims activity in and around the Persian Gulf driving additional premium payments.

The exception to the growth across the portfolio has been in the energy book where reduced global oil prices and a benign claims environment in the upstream account meant rate increases were subdued.

The division continues to explore opportunities to embed data and analytics tools to derive more insight into the drivers of loss and how to mitigate them, working with third parties and enhancing proprietary data while looking ahead to more consistent growth opportunities in 2021.

Political, Accident & Contingency

	2020 \$m	2019 \$m
Gross premiums written	28.1	31.1
Net premiums written	20.7	26.6
Earned premiums, net of reinsurance	20.7	26.5
Claims incurred, net of reinsurance	(58.3)	(10.5)
Net operating expenses	(9.8)	(10.7)
Technical result	(47.4)	5.3
Claims ratio	282%	40%
Expense ratio	47%	40%
Combined ratio	329%	80%
Renewal rate change	4%	-

The syndicate's political, accident & contingency division had a challenging year as the hardest hit division by COVID-19, due to the high number of cancelled events insured within the Contingency book. However other parts of the syndicate performed well, benefiting from positive prior year movements. The division's combined ratio was 329% (2019: 80%) on premiums that reduced 10% to \$28.1m (2019: \$31.1m).

The syndicate underwriting and claims teams have been working tirelessly with clients and brokers to pay claims quickly and to ensure coverage meets the needs of policyholders in the new hybrid world we are entering. The development of our Transmission Failure product for virtual events is an excellent example of the syndicate team acting to respond to the changing environment to create solutions that address future risks.

Growth in the syndicate Political Risk product was also dampened due to COVID-19, reflecting a slowdown in activities within the financial services industry as major projects ground to a halt. While this book and its performance are correlated with global economic cycles, there were no significant losses in a relatively benign claims environment, while rates strengthened in response to more competitive market conditions.

Premium grew across the terrorism portfolio, where there were a number of new underwriting opportunities globally. Growth was in part driven by more property exclusions put in place, contributing to an increase in appetite for standalone cover. Rates remained flat following a number of years of declining rates. The syndicate Deadly Weapons Protection (DWP) product continued to grow in the US and also internationally. In the second half we developed a new joint US distribution strategy for DWP and Safeguard, a specialist product that provides cover and prevention services to reduce incidents of abuse, given insureds are typically in similar sectors.

Strategic report of the managing agent continued

Property

	2020 \$m	2019 \$m
Gross premiums written	103.4	93.9
Net premiums written	85.6	80.2
Earned premiums, net of reinsurance	79.2	78.8
Claims incurred, net of reinsurance	(64.2)	(45.4)
Net operating expenses	(30.7)	(31.3)
Technical result	(15.7)	2.1
Claims ratio	81%	57%
Expense ratio	39%	40%
Combined ratio	120%	97%
Renewal rate change	15%	11%

The syndicate property division reported a combined ratio of 120%, (2019: 97%) reflecting claims due to COVID-19, which masked corrective actions taken throughout 2019 and early 2020 to improve performance, while premiums grew by 10% to \$103.4m (2019: \$93.9m).

The overall property market has continued to see a second year of rate increases in 2020, following soft market conditions going back at least five years. During this time the global Property team has been diligently remediating the book through tighter risk selection to better diversify the portfolio and reduce loss frequency.

The division began the year on a strong footing, having significantly improved the management of attritional losses and catastrophe-exposed areas of the book. It remained focused on delivering profit over top-line growth through consistent underwriting, supported by improved rating tools and data capture across the portfolio as well as a sharp focus on reviewing wordings to ensure policies provide clarity and certainty to clients. The managing agent continue to invest in tools to better understand and underwrite the syndicate risk exposures, while also continuing to optimise the syndicate natural catastrophe perils using a data-led analytical approach to managing these exposures. The managing agent was pleased to continue to welcome new talent to the team over the course of the year, including additional underwriting expertise and one of the sector's most highly regarded wordings specialists.

Continued enhancements and diligence in the syndicate risk analysis and selection have addressed and reduced exposure to attritional losses, including water losses, which remain a growing issue across the industry. In addition an innovative approach to mitigating risk in the small property book through wind and earthquake buy-down products has helped the syndicate continue to grow in a highly competitive technology-driven market segment.

Reinsurance

	2020 \$m	2019 \$m
Gross premiums written	41.1	43.6
Net premiums written	26.6	25.7
Earned premiums, net of reinsurance	26.0	25.6
Claims incurred, net of reinsurance	(18.4)	(31.3)
Net operating expenses	(9.3)	(9.8)
Technical result	(1.7)	(15.5)
Claims ratio	71%	123%
Expense ratio	36%	38%
Combined ratio	107%	161%
Renewal rate change	13%	5%

High frequency of medium-range natural catastrophe activity impacted profitability in the syndicate's reinsurance division. However, the portfolio benefited from more substantial rate rises during the mid-year renewals contributing to premiums of \$41.1m (2019: 43.6m). The syndicate has generated a combined ratio of 107% in 2020 (2019: 161%).

During 2020 the syndicate reinsurance division refocus on core property catastrophe business and reduce exposure to niche areas including miscellaneous treaty and also crop, which is the area of the portfolio most exposed to climate change risk.

The syndicate reinsurance division was slower to experience increased premium than the primary market, but low-level rate increases materialised at the start of the year in areas of the property treaty book directly impacted by natural catastrophes in prior years. Market hardening across the book began in earnest at the mid-year point in response to concern around under-pricing and the potential impact of COVID-19 overlaying a number of years of significant weather-related losses, notably Hurricane Irma in 2017 and Typhoon Jebi in 2018. Although wildfires continued to burn in 2020, the reinsurance division was less impacted having re-underwritten exposed areas of the book using improved modelling around secondary perils. Wind continued to prove the greater driver of claims, this year, in the form of Hurricane Laura and Mid-west Derecho.

The syndicate is reserved prudently to manage the effects of COVID-19 on the secondary property market and the managing agent continues to monitor legal decisions regarding the primary market to ensure the managing agent responds quickly to the impact on the reinsurance market.

Strategic report of the managing agent continued

Specialty Lines

	2020 \$m	2019 \$m
Gross premiums written	198.4	162.7
Net premiums written	167.9	145.2
Earned premiums, net of reinsurance	154.8	132.7
Claims incurred, net of reinsurance	(90.7)	(78.1)
Net operating expenses	(55.8)	(47.5)
Technical result	8.3	7.1
Claims ratio	59%	59%
Expense ratio	36%	36%
Combined ratio	95%	95%
Renewal rate change	15%	6%

The syndicate specialty line division wrote \$198.4m of premiums (2019: \$162.7m) and reported a profit of \$8.3m achieving a combined ratio of 95% (2019: 95%) in a year of much-needed rate hardening following several years of soft market conditions.

The syndicate specialty lines began the year in a relatively flat market, having prepared a portfolio and pricing strategy to grow the book in a disciplined manner with an active recession plan in place. As the economic impact of COVID-19 became more apparent from March, the managing agent took rapid steps to manage exposure and re-underwrite exposed lines where necessary. Faced with a pandemic combined with ongoing social inflation, poor historical results and the prospect of a deeper than anticipated recession, the markets almost unanimously reacted by adjusting pricing, triggering a market reset that is expected to continue throughout 2021.

This market turn has also coincided with the significant planned expansion of the syndicate book in Europe, Asia, Canada and Latin America across international financial lines, management liability and healthcare. Throughout the year the managing agent launched more than 50 international products in over ten countries and in many different languages, as part of a long-term strategy of hiring regionally based underwriters and building a diversified footprint, to complement the syndicate operation.

Overall rates increased in the year by 15% on average with the sharpest premium growth across international financial lines and management liability, and particularly in those territories with traditionally higher litigation costs, including Australia, and risks exposed in the US. International D&O increased by more than 120% on top of rate hardening in 2018 and 2019.

The managing agent has continued to pursue consistent underwriting and careful risk selection in lines of heightened risk, mindful of the long development nature of both COVID-19 and recession-related losses. To date, the syndicate have seen few claims arising from either event; however, the syndicate have strengthened reserves in exposed classes in anticipation of such claims starting to materialise in the future. The performance of the lawyers professional liability book continues to improve with increased pricing and limit management, while the economic downturn has slowed growth in Environmental Liability although this remains one of the syndicate most profitable areas.

Most areas of healthcare have seen steady growth and the managing agent have substantially increased the footprint of the syndicate pioneering Virtual Care product, which insures a multitude of risks facing digital health providers. The managing agent have rolled out the offering in six countries, at a time when remote health consultations have become common place under social distancing rules.

Rate adjustment in both Healthcare Management Liability and Hospital Medical Malpractice Liability came later in the year; although the syndicate anticipate that these will continue to strengthen in 2021.

Looking into 2021 the syndicate expect consistent growth against plan and the managing agent anticipate further product expansion internationally as well as the continued roll-out of the syndicate Global Programmes capabilities.

Managing agent's report

The managing agent presents its report for the year ended 31 December 2020.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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 2018 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 ('BFL') 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.

2020 in review: Enduring change transition... resilience... learning...

This is now the third year that change has been the key theme to this report however, what has shifted is the sheer scale of change that this year has brought. COVID-19 has had a profound impact on society, industry and us as individuals. This year we have been put through our paces, with the pandemic itself proving to be a robust test of the design and operation of our risk management framework, which has responded well, helping us navigate the many challenges thrown our way. In particular, the framework remains effective despite the fundamental change to our ways of working – a transformation in practices not seen for generations.

Transition

Responding to change starts with transition. Like many companies around the globe, all of the managing agent employees moved to remote working in March 2020, in an operational shift the size and scale of which had never been imagined. During this time of uncertainty, and whilst managing this shift, the employees of the managing agent retained focus and momentum and the syndicate continued to function seamlessly. Behind this transition were a number of operational risk management drivers. The investment in IT hardware and training meant staff had the tools needed to work effectively anywhere but also the requisite knowledge to use them effectively. Additionally, processes and controls were in place and clearly understood so they could continue to work efficiently and effectively despite the physical distancing of the workforce.

Colleagues understood their roles and responsibilities and, importantly, knew how their roles dovetailed together. This enables the syndicate to take full advantage of our suite of collaboration tools to deliver tangible value for our members and broker partners through clear communication and a commercial mindset.

As a result of this preparation, the syndicate remained very much open for business.

Resilience

As lockdown extended and weeks turned to months, the risk management framework shifted gear and began focusing on monitoring staff resilience and looking for ways to offer greater support to all, not just those in need. The managing agent's mental wellbeing network, founded in 2019, continues to not only educate all Beazley staff on mental wellbeing issues and provide a support network for those who are suffering but also to extend its reach and impact through the introduction of the Thrive app. The app helps with the early identification of and assistance with anxiety and depression, two of the most prevalent mental health illnesses in the workplace. This is in addition to the 30 volunteer trained mental health first aiders that offer support and guidance to staff across the globe. The resilience of the managing agent workforce has been particularly impressive given the challenges this year has thrown at us from a professional and personal perspective and there is much we should all be proud of.

The managing agent has also been developing its operational resilience capabilities more broadly to ensure its business services can endure both high stress and significant change. The operational resilience committee has facilitated the ability for all areas of the business to withstand the emerging challenges, including those created by the COVID-19 pandemic. Specific to COVID-19, the business continuity management team continues to work tirelessly to oversee the managing agent response, from the initial transition to remote working through to the reopening of the managing offices in accordance with local guidelines.

Managing agent's report continued

Their crucial work underpins our ability to deliver for our customers. In addition, there has been an increased focus on information and cyber security, protecting against data breaches and operational disruptions given the move to widespread remote working and the general increase in external cyber incidents.

At its heart, operational risk is about people, processes and systems. Monitoring provided by the risk management framework has provided assurance to the board of the managing agent that these three elements continued to work effectively during 2020.

Learning

Although the pandemic is not yet behind us, the managing agent has begun to review what lessons we can take away from the experience to date. This activity highlighted a weakness in the assumptions underpinning the pandemic realistic disaster scenario. As such, the managing agent Chief Underwriting Officer, with support and challenge from risk management, has reviewed the complete suite of realistic disaster scenarios to check that the base cases remain appropriate and to stress test the key assumptions of each scenario to understand vulnerabilities in the assumptions. Whilst there are no fundamental changes required, it has created an opportunity for enhanced fine-tuning of the insurance portfolio within the 2021 business plan.

The current risk management framework was implemented in 2010. In 2020, the managing agent commissioned an external review of the risk management framework to ensure applicability in today's world. Whilst the review highlighted a number of strengths in the framework, it also provided opportunities for enhancement. These changes will be implemented over the course of 2021 to ensure the risk management framework drives value through enhanced resilience whilst continuing to support Beazley in navigating the next 10 years.

Brexit

The UK and EU have signed a trade agreement prior to the end of the Brexit transition period. Whilst this removes some key economic uncertainties, the practical implications for financial services in general and the managing agent specifically are unchanged and so the preparations previously put in place mean that the syndicate could continue to operate despite the loss of passporting rights. As such, no changes to the structures and processes put in place by the syndicate are necessary as a result of the terms of the trade deal. The Lloyd's Market is enhancing operating processes to demonstrate adherence to the Insurance Distribution Directive and Beazley will adopt the appropriate procedures.

Climate change

The managing agent continues to monitor the impact and risks of climate change on its insurance portfolio and investment portfolio. During 2020, Beazley recruited a Sustainability Officer to support the assessment of the financial impact of climate change and by undertaking risk assessments on the syndicate's products. These assessments identify how products need to evolve as we transition to a lower carbon environment. A review of 13 products has been completed and the remainder will be performed in 2021, in accordance with the Task Force for Climate related Financial Disclosures (TCFD) requirements. To assess the risk within our insurance and investment portfolios, we have updated the following three stress tests, first reported in the 2019 report and accounts:

To assess the risk within the syndicate's insurance and investment portfolios, the managing agent ran the following three stress tests as part of our General Insurance Stress Test return to the Prudential Regulation Authority:

- Scenario A – A sudden transition (a Minsky moment), ensuing from rapid global action and policies, and materialising over the medium-term business planning horizon that results in achieving a temperature increase being kept below 2 degrees celsius (relative to pre-industrial levels) but only following a disorderly transition.
- Scenario B – A long-term orderly transition scenario that is broadly in line with the Paris Agreement. This involves a maximum temperature increase being kept well below 2 degrees celsius (relative to pre-industrial levels) with the economy transitioning in the next three decades to achieve carbon neutrality by 2050 and greenhouse-gas neutrality in the decades thereafter.
- Scenario C – A scenario with failed future improvements in climate policy, reaching a temperature increase in excess of 4 degrees celsius (relative to pre-industrial levels) by 2100 assuming no transition and a continuation of current trends in temperature changes. From an insurance portfolio perspective, the increased claims costs of a US hurricane under the three climatic scenarios are:

	Scenario A %	Scenario B %	Scenario C %
Insurance portfolio			
Average loss	13	36	86
1:100 loss	6	21	60
Investment portfolio			
Average loss	-0.17	-0.42	n/a
1:100 loss	-0.00	-0.38	-0.48

Control statement

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.

It would seem that change is the syndicate new normal. The board of the managing agent look forward to reporting on how we have navigated this new environment next year.

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 Furlong 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:

- there is a culture of risk awareness, in which risks are identified, assessed and managed;
- risk management is a part of the wider governance environment where challenge is sought and welcomed;
- risk mitigation 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;
- risk management processes are robust and supported by verifiable management information; and
- risk management information and reporting is timely, clear, accurate and appropriately escalated.

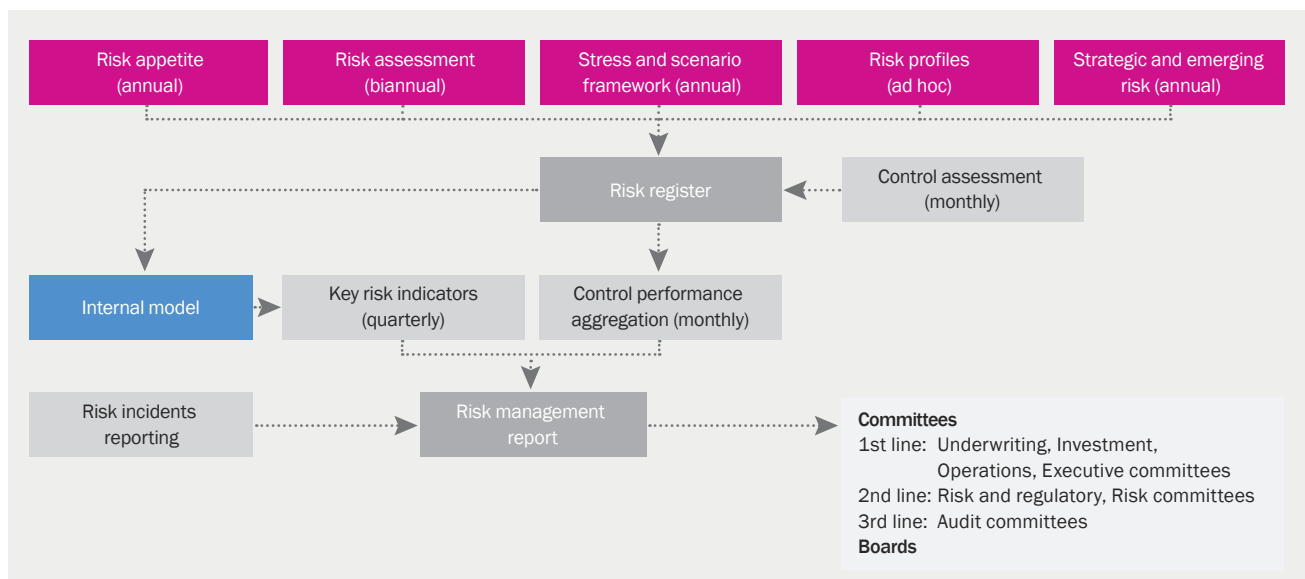
Managing agent's report continued

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
<ul style="list-style-type: none"> – Identifies risk – Assesses risk – Mitigates risk – Monitors risk – Records status – Remediates when required 	<ul style="list-style-type: none"> – Challenge that risks are being identified – Assess the risk mitigation strategy – Monitor that controls are operating effectively – Reports to committees and board on risk and control issues with risk management opinions 	<ul style="list-style-type: none"> – 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 review and challenge these assessments and report 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 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 2020.

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 Own Risk and Solvency Assessment (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 of the managing agent 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, apart from COVID-19, there have been no major changes 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, earthquake or wildfires. 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, global pandemic, losses lined to an economic crisis, 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 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.

Managing agent's report continued

- **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 its 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 Beazley could be involved in a corporate transaction which did not return the expected value to the syndicate. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

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

Other risks

- **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 exposure. 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 key risk is a deterioration in group's culture which leads to inappropriate behavior, actions or decisions. This is monitored through engagement surveys, staff feedback and regular dialogue with senior management. The main group risk is that one group entity operates to the detriment of another group entity or entities. The Beazley plc board monitors this risk through the reports it receives from each entity.

Financial crime risk

The managing agent 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 2010 and US Foreign Corrupt Practices Act 1977. 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 changing global climate is recognised as an important 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 effect 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 benefit from a 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 (e.g. wildfires) that could drive higher-than-expected insured losses. The syndicate utilises commercial catastrophe models to facilitate the estimation of aggregate exposures based on the syndicate's underwriting portfolio. These catastrophe models are updated to reflect the latest scientific perspectives. 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 monthly basis which monitors the syndicate's exposure to certain scenarios that could occur. 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 to reflect the ultimate impact climate change may have on paid losses. This includes liability risk for unanticipated losses arising from our clients facing litigation if they are held to be responsible for contributing to climate change, or for failing to act properly to respond to the various impacts of climate change. 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 managing agent considers the impact of climate change on syndicate's asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. The managing agent subscribes 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 the environmental, social and governance 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 minimize the risk of an interrupted 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 limited. However we do choose office space and 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.

Managing agent's report continued

- **Regulatory and legal risk:** Regulators, investors and other stakeholders 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, there is a risk that losses resulting from unprecedented natural disasters or extreme weather could erode the ability of the syndicate to pay claims and remain solvent. The group establishes capital at a 1:200 level based on the prevailing business plan.
- **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. This creates a transition risk that our underwriting portfolio might not keep pace with the changes, being heavily exposed to declining industries and failing to capitalise on the opportunities. The Emerging Risks analysis and business planning process seeks to mitigate this risk through horizon scanning for our longer-tail book, while we are able to be more flexible in responding to events impacting our short tail exposures.

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:

	2019 year of account underwriting capacity £	2020 year of account underwriting capacity £	2021 year of account underwriting capacity £
A P Cox	400,000	400,000	400,000
S M Lake	n/a	100,000	100,000
D A Horton	400,000	400,000	400,000
A S Pryde	300,000	350,000	350,000
I Fantozzi	300,000	350,000	350,000

A full list of the directors of the managing agent who held office during the year can be found on page 72 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

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

On behalf of the board

S M Lake

Finance Director

2 March 2021

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 (Lloyd'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 (Lloyd'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 (Lloyd'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

S M Lake

Finance Director

2 March 2021

Independent auditor's report to the members of Syndicate 623

Opinion

We have audited the syndicate annual accounts of syndicate 623 ('the syndicate') for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 21 other than the syndicate annual accounts and our auditor's report thereon. The directors of the managing agent is responsible for the other information contained within the annual report.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual accounts themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

- the information given in the managing agent's report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- certain disclosures of the managing agents' emoluments specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 21, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the syndicate annual accounts

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the managing agent and management.

Independent auditor's report to the members of Syndicate 623 continued

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations, related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UK GAAP), and requirements referred to by Lloyd's in the instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of Lloyd's of London, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate annual accounts' items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate
- We assessed the susceptibility of the syndicate's annual accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets and external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. This included:
 - Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries we assessed if there were any indicators of management bias in the valuation of insurance liabilities and the recognition of estimated premium income.
 - Evaluating the business rationale for significant and/or unusual transactions.
 - Testing manual journals and were designed to provide reasonable assurance that the syndicate annual accounts were free from fraud or error.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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 syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Wilson (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

2 March 2021

Notes:

1. The maintenance and integrity of the syndicate web site is the responsibility of the manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the syndicate annual accounts since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of syndicate annual accounts may differ from legislation in other jurisdictions.

Statement of comprehensive income

for the year ended 31 December 2020

	Notes	2020 \$m	2019 \$m
Gross premiums written	3	589.9	518.4
Outward reinsurance premiums		(101.0)	(91.4)
Net premiums written	3	488.9	427.0
Change in the gross provision for unearned premiums	14	(45.0)	(22.8)
Change in the provision for unearned premiums, reinsurers' share	14	12.0	0.7
Change in the net provision for unearned premiums		(33.0)	(22.1)
Earned premiums, net of reinsurance	3	455.9	404.9
Allocated investment return transferred from the non-technical account	8	18.3	28.9
Gross claims paid		(308.2)	(273.7)
Reinsurers' share of claims paid		82.6	58.5
Claims paid net of reinsurance		(225.6)	(215.2)
Change in the gross provision for claims	14	(134.8)	(54.0)
Change in the provision for claims, reinsurers' share	14	19.1	21.3
Change in the net provision for claims		(115.7)	(32.7)
Claims incurred, net of reinsurance		(341.3)	(247.9)
Net operating expenses	4	(161.6)	(153.3)
Balance on the technical account		(28.7)	32.6
Investment income	8	10.9	13.6
Investment expenses and charges	8	(0.7)	(1.1)
Realised gains on investments	8	6.2	3.1
Unrealised gain on investments	8	1.9	13.3
		18.3	28.9
Allocated investment return transferred to general business technical account		(18.3)	(28.9)
Gain/(loss) on foreign exchange		-	(4.6)
Other income	9	0.2	-
(Loss)/gain for the financial year		(28.5)	28.0

All of the above operations are continuing.

The notes on pages 29 to 55 form part of these financial statements.

Statement of changes in members' balances

for the year ended 31 December 2020

	2020 \$m	2019 \$m
Members' balances brought forward at 1 January	(28.9)	(25.7)
(Loss)/gain for the financial year	(28.5)	28.0
Profit distribution before members agent's fees – 2016 Year of account	-	(31.2)
Loss collection before members agent's fees – 2017 Year of account	5.5	-
Members' balances carried forward at 31 December	(51.9)	(28.9)

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 29 to 55 form part of these financial statements.

Balance sheet

at 31 December 2020

	Notes	2020 \$m	2019 \$m
Assets			
Financial assets at fair value	10	699.4	529.9
Deposit with ceding undertakings		-	-
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	14	49.5	37.2
Claims outstanding, reinsurers' share	14	226.9	207.6
Unexpired risk provision, reinsurers' share	14	2.0	-
		278.4	244.8
Debtors			
Debtors arising out of direct insurance operations		155.7	134.8
Debtors arising out of reinsurance operations		116.0	67.7
Other debtors	12	28.7	47.6
		300.4	250.1
Cash at bank and in hand	13	13.1	25.4
Deferred acquisition costs	18	71.4	65.5
Other prepayments and accrued income		4.3	3.4
Total assets		1,364.7	1,119.1
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations		(51.9)	(28.9)
Technical provisions			
Provision for unearned premiums	14	318.8	270.9
Claims outstanding	14	949.5	821.8
Unexpired risk provision	14	20.1	-
		1,288.4	1,092.7
Creditors			
Creditors arising out of direct insurance operations		55.3	37.9
Creditors arising out of reinsurance operations		3.3	3.9
Other creditors	15	55.0	2.0
		113.6	43.8
Financial liabilities	10	1.7	1.6
Accruals and deferred income		15.2	9.9
Total liabilities, capital and reserves		1,364.7	1,119.1

The notes on pages 29 to 55 form part of these financial statements.

The syndicate annual accounts on pages 25 to 55 were approved by the board of Beazley Furlonge Limited on 2 March 2021 and were signed on its behalf by:

A P Cox
Active Underwriter

S M Lake
Finance Director

Cash flow statement

for the year ended 31 December 2020

	Notes	2020 \$m	2019 \$m
Reconciliation of total comprehensive (loss)/profit for the financial year to net cash inflow from operating activities			
(Loss)/profit for the financial year		(28.5)	28.0
Increase in net technical provisions		162.1	55.7
Increase in debtors		(51.2)	(20.7)
Increase/(decrease) in creditors		75.1	(68.1)
Investment return		(18.3)	(28.9)
Increase in deferred acquisition costs		(5.9)	(3.7)
Net cash flows from operating activities		133.3	(37.7)
Net (purchase)/sale of investments		(171.6)	60.9
Cash received from investment return		16.4	15.6
Net cash (outflow)/inflow from investing activities		(155.2)	76.5
Transfer from/(to) members in respect of underwriting participations		5.5	(31.2)
Net cash from/(to) financing activities		5.5	(31.2)
Net (decrease) /increase in cash and cash equivalents		(16.4)	7.6
Cash and cash equivalents at the beginning of the year		29.3	22.2
Effect of exchange rate changes on cash and cash equivalents		1.2	(0.5)
Cash and cash equivalents at the end of the year	13	14.1	29.3

The notes on pages 29 to 55 form part of these financial statements.

Notes to the syndicate annual accounts

1 Accounting policies

Basis of preparation

Syndicate 623 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 72.

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.

Part VII transfer

On 30 December 2020, the members and former members of the syndicate, as comprised for each of the relevant years of account between 1993 and April 2019, transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the members and former members of the syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the members and former members of the syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of \$40.7m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of \$40.7m. The combined effect of the two transactions had no economic impact for the syndicate, and accordingly there is no impact on the syndicate's profit or loss statement and balance sheet.

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

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 2020 is included within claims outstanding in the balance sheet.

Other key estimates contained within the syndicate close process are premium estimates and the earning pattern of recognising premium over the life of the contract. In the syndicate the premium written is initially based on the estimated premium income ('EPI') of each contract. Where premium is sourced through binders, the binder EPI is pro-rated across the binder period. This is done on a straight-line basis unless the underlying writing pattern from the prior period indicates the actual underlying writing pattern is materially different. The underwriters adjust their EPI estimates as the year of account matures. As the year of account closes premiums are adjusted to match the actual signed premium. An accrual for estimated future reinstatement premiums is retained. Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

Notes to the syndicate annual accounts continued

1 Accounting policies continued

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 inception 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. For the year ending 31 December 2020, gross premiums written includes a one off transfer of business to Lloyd's Brussels and subsequent inward reinsurance of business from Lloyd's Brussels to reflect the Part VII transfer. The net impact of this transaction is nil.

Due to the nature of the Lloyd's business and the settlement patterns of the underlying business it is also not uncommon for some contracts to take a number of years to finalise and settle, and as such remain a receivable on the balance sheet remains. The amount of estimated future premium that remains in insurance receivables relating to years of account that are more than three years developed at 31 December 2020 is \$2.1m (2019: \$1.5m).

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) Provision and 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 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.

Another critical estimate within insurance liabilities is the estimation of an unexpired risk reserve (URR) for the expected value of net claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date which exceeds the unearned premium reserve. The provision has been determined by reviewing various policies/events which are expected to trigger a COVID-19 related claims loss in the first half of 2021. This estimate is based on the assumption that various government restrictions are predicted to ease from July 2021. If this estimation was to prove inadequate, the unexpired risk reserve provision could be understated. The total estimate for URR gross of reinsurers' shares at 31 December 2020 was \$20.1m (2019: nil). The total estimate for URR net of reinsurers' shares at 31 December 2020 was \$18.1m (2019: nil).

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.

1 Accounting policies *continued*

e) Liability adequacy testing

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of DAC and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, and investment income from the assets backing such liabilities are used. Management have determined that the unprecedented impact COVID-19 has had on certain areas of the syndicate underwriting portfolio has been the specific event/trigger to initiate the assessment for an unexpired risk reserve ('URR') recognition. This assessment has been made at a level more granular than segment to reflect the different risk characteristics, including duration, of the related COVID-19 exposures.

Management agent has assessed the Property, Treaty, Marine and PAC segments – all of which have been impacted by COVID-19. Contingency business written through the PAC division was identified as the only class of business within these divisions that required a URR consideration as a result of COVID-19. The contingency book which insures against event cancellation has expected future claims on events taking place in the first half of calendar year 2021, which exceed the unearned premium on these policies.

Any deficiency is immediately charged to the statement of profit or loss and subsequently by establishing a URR provision for losses arising from liability adequacy tests.

f) Foreign currencies

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the syndicate considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in statement of comprehensive income. Non-monetary items recorded at historical cost in foreign currencies are translated in the statement of comprehensive income using the average rates, and the spot rate is used for the balance sheet.

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) Deposits with ceding undertakings

Deposits with ceding undertakings represents funds held by Lloyd's Brussels on behalf of the syndicate to settle Part VII claims. These funds are measured at cost less allowance for impairment.

i) 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.

j) 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 profit or loss.

Notes to the syndicate annual accounts continued

1 Accounting policies continued

k) 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 profit or loss, 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 profit or loss

Except for derivative financial instruments, all financial assets are designated as fair value through profit or loss 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.

1 Accounting policies *continued*

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

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.

l) 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.

m) Other debtors

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

n) Other creditors

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

o) 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.

p) 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 profit or loss.

q) Cash and cash equivalents

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 balances classified as loans and receivables and carried at amortised cost less any impairment losses.

r) 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.

Notes to the syndicate annual accounts continued

1 Accounting policies continued

No provision has been made for any US 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.

s) Pension costs

Beazley Furlonge Limited operates a defined benefit scheme. Pension contributions relating to staff who act on behalf of the syndicate are charged to the syndicate and included within net operating expenses.

t) 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 syndicate'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.

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.

2 Risk management *continued*

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 2020, the absolute maximum line that any one underwriter could commit the managed syndicate to was \$27.0m (2019: normal maximum line \$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 2020, the syndicate's business consisted of six operating divisions. The following table provides a breakdown of gross premiums written by division:

	2020 %	2019 %
Cyber & Executive Risk	25	23
Marine	12	13
Political, Accident & Contingency	5	6
Property	17	18
Reinsurance	7	8
Specialty Lines	34	32
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 syndicate annual accounts 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 net claims reserves		5% decreases in net claims reserves	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Sensitivity to insurance risk (claims reserves)				
Impact on profit	(37.0)	(30.7)	37.0	30.7

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.

	2020 %	2019 %
US	59	62
Europe ¹	17	15
Other	24	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.

2.3 Strategic risk

This is the risk that Beazley Furlong Limited's strategy is inappropriate or that Beazley Furlong 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 Furlong Limited's monitoring tools and governance structure.

2.4 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.

2 Risk management *continued*

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 broadly matched by currency to the principal underlying settlement currencies of its insurance liabilities. This helps mitigate the risk that future movements in exchange rates would materially impact the syndicate's assets required to cover its insurance liabilities.

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

	UK £ \$m	CAD \$ \$m	EUR € \$m	Subtotal \$m	US \$ \$m	Total \$m
31 December 2020						
Total assets	125.2	74.0	25.1	224.3	1,140.3	1,364.6
Total liabilities	(168.0)	(47.4)	(82.4)	(297.8)	(1,119.0)	(1,416.8)
Net assets	(42.8)	26.6	(57.3)	(73.5)	21.3	(52.2)
31 December 2019						
Total assets	100.0	64.0	27.9	191.9	927.2	1,119.1
Total liabilities	(86.2)	(40.7)	(70.4)	(197.3)	(950.7)	(1,148.0)
Net assets	13.8	23.3	(42.5)	(5.4)	(23.5)	(28.9)

Sensitivity analysis

In 2020, 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 that the exposure will be mitigated in the future 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	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar				
Dollar weakens 30% against other currencies	(3.8)	1.9	(3.8)	1.9
Dollar weakens 20% against other currencies	(2.6)	1.3	(2.6)	1.3
Dollar weakens 10% against other currencies	(1.3)	0.6	(1.3)	0.6
Dollar strengthens 10% against other currencies	1.3	(0.6)	1.3	(0.6)
Dollar strengthens 20% against other currencies	2.6	(1.3)	2.6	(1.3)
Dollar strengthens 30% against other currencies	3.8	(1.9)	3.8	(1.9)

Notes to the syndicate annual accounts 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	<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
31 December 2020								
Fixed and floating rate debt securities	193.3	230.0	77.1	45.1	43.6	13.2	-	602.3
Syndicate loan to Lloyd's central fund	-	-	-	1.7	6.4	-	-	8.1
Cash at bank and in hand	13.1	-	-	-	-	-	-	13.1
Derivative financial instruments	4.0	-	-	-	-	-	-	4.0
Total	210.4	230.0	77.1	46.8	50.0	13.2	-	627.5
Duration	<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
31 December 2019								
Fixed and floating rate debt securities	189.4	110.9	90.1	26.8	29.4	80.1	1.2	455.9
Syndicate loan to Lloyd's central fund	-	-	-	-	-	1.6	-	1.6
Cash at bank and in hand	25.4	-	-	-	-	-	-	25.4
Derivative financial instruments	0.6	-	-	-	-	-	-	0.6
Total	215.4	110.9	90.1	26.8	29.4	9.7	1.2	483.5

The change in the duration of Syndicate loans is reflects a change in the repayment timeline assumption set by Lloyd's. This revision now reflects a five year repayment timeline from the collection date.

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:

Shift in yield (basis points)	Impact on profit for the year ended		Impact on net assets	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
150 basis point increase	(15.6)	(12.0)	(15.6)	(12.0)
100 basis point increase	(10.4)	(8.0)	(10.4)	(8.0)
50 basis point increase	(5.2)	(4.0)	(5.2)	(4.0)
50 basis point decrease	5.2	4.0	5.2	4.0
100 basis point decrease	10.4	8.0	10.4	8.0

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 syndicate'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*

Price risk 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	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Change in fair value of hedge funds and equity linked funds				
30% increase in fair value	33.3	21.5	33.3	21.5
20% increase in fair value	22.2	14.3	22.2	14.3
10% increase in fair value	11.1	7.2	11.1	7.2
10% decrease in fair value	(11.1)	(7.2)	(11.1)	(7.2)
20% decrease in fair value	(22.2)	(14.3)	(22.2)	(14.3)
30% decrease in fair value	(33.3)	(21.5)	(33.3)	(21.5)

2.5 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 operates 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.

2.6 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.

Notes to the syndicate annual accounts continued

2 Risk management continued

2.6 Credit risk continued

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

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:

	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	541.5	60.8	-	-	-	602.3
- syndicate loan to Lloyd's central fund	8.1	-	-	-	-	8.1
- equity funds	-	-	-	-	21.1	21.1
- hedge funds	-	-	-	-	59.0	59.0
- derivative financial assets	-	-	-	-	4.0	4.0
- illiquid credit assets	-	-	-	-	4.9	4.9
Reinsurers' share of outstanding claims	224.9	0.3	-	-	3.7	228.9
Reinsurance debtors	28.6	0.1	-	-	0.1	28.8
Cash at bank and in hand	13.1	-	-	-	-	13.1
Total	816.2	61.2	-	-	92.8	970.2

31 December 2019	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	227.7	154.0	-	-	74.2	455.9
- syndicate loan to Lloyd's central fund	1.6	-	-	-	-	1.6
- equity funds	-	-	-	-	15.0	15.0
- hedge funds	-	-	-	-	53.7	53.7
- derivative financial assets	-	0.6	-	-	-	0.6
- illiquid credit assets	-	-	-	-	3.1	3.1
Reinsurers' share of outstanding claims	204.9	-	-	-	2.8	207.7
Reinsurance debtors	10.4	-	-	-	0.1	10.5
Cash at bank and in hand	25.4	-	-	-	-	25.4
Total	470.0	154.6	-	-	148.9	773.5

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 2020 is \$0.9m (2019: \$0.7m). This \$0.9m provision in respect of overdue reinsurance recoverables is included within the debtors arising out of reinsurance operations balance of \$116.0m (2019: \$67.7m). 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:

	Neither due nor impaired \$m	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
31 December 2020						
Insurance debtors	132.9	15.9	4.1	2.8	–	155.7
Reinsurance assets	28.7	3.3	0.1	–	–	32.1
31 December 2019						
Insurance debtors	110.1	18.1	3.9	2.7	–	134.8
Reinsurance assets	10.5	0.6	–	–	–	11.1

2.7 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.

2.8 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 2020:

	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
31 December 2020						
Cyber & Executive Risk	46.6	78.1	33.4	12.3	170.4	2.2
Marine	26.7	24.3	8.6	4.1	63.7	1.8
Political, Accident & Contingency	27.6	19.2	4.6	4.6	56.0	1.9
Property	40.7	34.5	9.0	6.5	90.7	1.9
Reinsurance	22.8	19.3	5.7	4.8	52.6	2.0
Specialty Lines	54.9	99.5	65.9	87.0	307.3	4.0
Net insurance liabilities	219.3	274.9	127.2	119.3	740.7	

Notes to the syndicate annual accounts continued

2 Risk management continued

31 December 2019	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Cyber & Executive Risk	41.2	67.4	27.8	9.1	145.5	2.2
Marine	23.3	20.8	7.3	3.4	54.8	1.8
Political, Accident & Contingency	9.2	6.7	1.7	1.7	19.3	1.9
Property	34.9	28.3	7.0	4.6	74.8	1.7
Reinsurance	22.6	19.8	5.5	4.1	52.0	1.9
Specialty Lines	45.2	88.7	62.6	72.0	268.5	3.8
Net insurance liabilities	176.4	231.7	111.9	94.9	614.9	

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

Maturity 31 December 2020	<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	199.3	198.3	65.6	33.3	51.8	54.1	-	602.4
Syndicate loan to Lloyd's central fund	-	-	-	1.7	6.4	-	-	8.1
Derivative financial instruments	4.0	-	-	-	-	-	-	4.0
Cash at bank and in hand	13.1	-	-	-	-	-	-	13.1
Other debtors	28.7	-	-	-	-	-	-	28.7
Other creditors	(55.0)	-	-	-	-	-	-	(55.0)
Total	190.1	198.3	65.6	35.0	58.2	54.1	-	601.3

Maturity 31 December 2019	<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	161.8	114.8	91.3	38.1	45.8	1.8	2.3	455.9
Syndicate loan to Lloyd's central fund	-	-	-	-	-	1.6	-	1.6
Derivative financial instruments	0.6	-	-	-	-	-	-	0.6
Cash at bank and in hand	25.4	-	-	-	-	-	-	25.4
Other debtors	47.6	-	-	-	-	-	-	47.6
Other creditors	(2.0)	-	-	-	-	-	-	(2.0)
Total	233.4	114.8	91.3	38.1	45.8	3.4	2.3	529.1

2.9 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.

2.10 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.

2 Risk management *continued*

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 2020 was 35% (2019: 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.

3 Segmental analysis

	Cyber & Executive Risk \$m	Marine \$m	Political, Accident & Contingency \$m	Property \$m	Reinsurance \$m	Specialty Lines \$m	Unallocated \$m	Total \$m
2020								
Gross premiums written	148.4	70.5	28.1	103.4	41.1	198.4	-	589.9
Net premiums written	123.6	64.5	20.7	85.6	26.6	167.9	-	488.9
Gross earned premiums	134.5	68.2	28.3	94.7	39.9	179.3	-	544.9
Outward reinsurance premiums earned	(21.4)	(6.1)	(7.6)	(15.5)	(13.9)	(24.5)	-	(89.0)
Earned premiums, net of reinsurance	113.1	62.1	20.7	79.2	26.0	154.8	-	455.9
Gross claims	(97.9)	(31.8)	(103.2)	(74.0)	(15.5)	(120.6)	-	(443.0)
Reinsurers share	21.3	(1.3)	44.9	9.8	(2.9)	29.9	-	101.7
Claims incurred, net of reinsurance	(76.6)	(33.1)	(58.3)	(64.2)	(18.4)	(90.7)	-	(341.3)
Operating expenses before foreign exchange	(33.8)	(22.2)	(9.8)	(30.7)	(9.3)	(55.8)	-	(161.6)
Technical result before items below	2.7	6.8	(47.4)	(15.7)	(1.7)	8.3	-	(47.0)
Loss on foreign exchange	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	0.2	0.2
Investment income	-	-	-	-	-	-	18.3	18.3
Profit/(loss) for the financial year	2.7	6.8	(47.4)	(15.7)	(1.7)	8.3	18.5	(28.5)
Claims ratio	68%	53%	282%	81%	71%	59%	-	75%
Expense ratio	30%	36%	47%	39%	36%	36%	-	35%
Combined ratio	98%	89%	329%	120%	107%	95%	-	110%

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

Notes to the syndicate annual accounts continued

3 Segmental analysis *continued*

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

- Cyber & Executive Risk – cyber and management liability;
- 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

	2020 \$m	2019 \$m
Acquisition costs	144.5	134.2
Change in deferred acquisition costs	(5.2)	(3.5)
Members' standard personal expenses	10.2	8.2
Administrative expenses	20.2	21.1
Overriding commission	(8.1)	(6.7)
	161.6	153.3

Administrative expenses include:

	2020 \$000	2019 \$000
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	128.7	83.7
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	167.3	151.7
	296.0	235.4

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to \$3.0m (2019: \$2.5m).

5 Staff costs

All staff are employed by Beazley Management Limited, with the majority of these costs incurred in sterling. The following amounts were recharged to the syndicate in respect of staff costs:

	2020 \$m	2019 \$m
Wages and salaries	12.0	11.0
Short-term incentive payments	2.4	4.6
Social security costs	2.6	2.8
Pension costs	2.3	2.5
	19.3	20.9

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:

	2020 \$m	2019 \$m
Emoluments and fees	0.8	1.2
	0.8	1.2

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 \$0.1m (2019: \$0.4m).

8 Net investment income

	2020 \$m	2019 \$m
Interest and dividends on financial investments at fair value through profit or loss	10.9	13.5
Interest on cash and cash equivalents	-	0.1
Realised gains on financial instruments at fair value through profit or loss	6.2	3.1
Net unrealised fair value gains/(losses) on financial investments at fair value through profit or loss	1.9	13.3
Investment income from financial investments	19.0	30.0
Investment management expenses	(0.7)	(1.1)
Total net investment income	18.3	28.9

9 Other income

	2020 \$m	2019 \$m
Profit commissions paid to Beazley Furlonge Limited	-	-
Other income	0.2	-
	0.2	-

10 Financial assets and liabilities

	Market value		Cost	
	2020 \$m	2019 \$m	2020 \$m	2019 \$m
Financial assets at fair value				
Fixed and floating rate debt securities:				
- Government issued	327.6	166.9	325.6	165.5
- Corporate bonds				
- Investment grade credit	249.0	264.1	245.0	261.9
- High yield	25.7	24.9	24.2	24.1
Syndicate loan to Lloyd's central fund	8.1	1.6	8.0	1.6
Total fixed and floating rate debt securities and syndicate loans to Lloyd's central fund	610.4	457.5	602.8	453.1
Equity funds	21.1	15.0	20.0	12.2
Hedge funds	59.0	53.7	46.1	41.6
Illiquid funds	4.9	3.1	4.6	2.7
Total capital growth	85.0	71.8	70.7	56.5
Total financial investments at fair value through profit or loss	695.4	529.3	673.5	509.6
Derivative financial instruments	4.0	0.6	-	-
Total financial assets at fair value	699.4	529.9	673.5	509.6
Financial liabilities				
Derivative financial instruments	1.7	1.6	-	-

A breakdown of derivative financial instruments is disclosed in note 11. The investment portfolio above contains \$1.0m of short term deposits separately disclosed in the cash and cash equivalents note 13.

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

Notes to the syndicate annual accounts continued

10 Financial assets and liabilities continued

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.

If the inputs used to measure the fair value of an asset or a liability could be categorised in different levels of the 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 significant to the entire measurement.

The table below analyses financial instruments measured at fair value at 31 December 2020 and 31 December 2019, based on the level in the fair value hierarchy into which the financial instrument is categorised:

2020	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	309.5	18.1	–	327.6
– Corporate bonds				
– Investment grade credit	136.0	113.0	–	249.0
– High yield	8.9	16.8	–	25.7
Syndicate loan to Lloyd's central fund	–	–	8.1	8.1
Equity funds	21.1	–	–	21.1
Hedge funds	–	59.0	–	59.0
Illiquid credit assets	–	–	4.9	4.9
Derivative financial assets	4.0	–	–	4.0
Total financial assets at fair value	479.5	206.9	13.0	699.4
Financial liabilities				
Derivative financial instruments	1.7	–	–	1.7

10 Financial assets and liabilities *continued*

2019	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets at fair value				
Fixed and floating rate debt securities:				
- Government issued	162.1	4.8	-	166.9
- Corporate bonds				
- Investment grade credit	33.1	231.0	-	264.1
- High yield	-	24.9	-	24.9
Syndicate loan to Lloyd's central fund	-	-	1.6	1.6
Equity funds	-	15.0	-	15.0
Hedge funds	-	53.7	-	53.7
Illiquid credit assets	-	-	3.1	3.1
Derivative financial assets	0.6	-	-	0.6
Total financial assets at fair value	195.8	329.4	4.7	529.9
Financial liabilities				
Derivative financial instruments	1.6	-	-	1.6

The table below shows the movement in level 3 assets:

	2020 \$m	2019 \$m
As at 1 January	4.7	2.9
Purchases	9.5	1.6
Sales	(1.2)	-
Total net gains recognised in profit or loss	-	0.2
As at 31 December	13.0	4.7

The group determines whether transfers have occurred between levels in the fair value hierarchy by assessing categorisation at the end of the reporting period. The following transfers between levels 1 & 2 for the period ended 31 December 2020 reflect the level of trading activities including frequency and volume derived from market data obtained from an independent external valuation tool.

31 December 2020 vs 31 December 2019 transfer from level 2 to level 1	Level 1 \$m	Level 2 \$m
- Equity funds	21.8	(21.8)
- Corporate bonds - investment grade	75.2	(75.2)
- Government Issued	4.1	(4.1)

31 December 2020 vs 31 December 2019 transfer from level 1 to level 2	Level 1 \$m	Level 2 \$m
- Corporate bonds - investment grade	(232.5)	232.5
- Government issued	(40.5)	40.5

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 82% (2019: 82%) 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 significant 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.

Notes to the syndicate annual accounts continued

11 Derivative financial instruments

In 2020 and 2019, 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.

	2020		2019	
	Gross contract amount \$m	Fair value of assets \$m	Gross contract amount \$m	Fair value of assets \$m
Derivative financial instrument assets				
Foreign exchange forward contract	92.0	4.0	35.0	0.6
Bond future contracts	-	-	20.3	-
	92.0	4.0	55.3	0.6

	2020		2019	
	Gross contract amount \$m	Fair value of liabilities \$m	Gross contract amount \$m	Fair value of liabilities \$m
Derivative financial instrument liabilities				
Foreign exchange forward contract	44.9	1.7	39.7	1.7
Bond future contracts	40.8	-	-	-
	85.7	1.7	39.7	1.7

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

	2020 \$m	2019 \$m
Amounts due from members	15.1	15.9
Amounts due from 6107	-	25.1
Amounts due from 2623	-	1.4
Net amount due from other related entities	6.0	-
Sundry debtors including taxation	7.6	5.2
	28.7	47.6

These balances are due within one year.

13 Cash and cash equivalents

	2020 \$m	2019 \$m
Cash at bank and in hand	13.1	25.4
Short term deposits	1.0	3.9
	14.1	29.3

14 Technical provisions

	Provision for unearned premium \$m	Claims outstanding \$m	Unexpired risk provision \$m
Gross technical provisions			
As at 1 January 2020	270.9	821.8	-
Movement in the technical provision	45.0	114.7	20.1
Exchange adjustments	2.9	13.0	-
As at 31 December 2020	318.8	949.5	20.1
Reinsurers' share of technical provisions			
As at 1 January 2020	37.2	207.6	-
Movement in the technical provision	12.0	17.1	2.0
Exchange adjustments	0.3	2.2	-
As at 31 December 2020	49.5	226.9	2.0
Net technical provisions			
As at 1 January 2020	233.7	614.2	-
As at 31 December 2020	269.3	722.6	18.1

	Provision for unearned premium \$m	Claims outstanding \$m	Unexpired risk provision \$m
Gross technical provisions			
As at 1 January 2019	247.4	766.5	-
Movement in the technical provision	22.8	54.0	-
Exchange adjustments	0.7	1.3	-
As at 31 December 2019	270.9	821.8	-
Reinsurers' share of technical provisions			
As at 1 January 2019	36.4	185.3	-
Movement in the technical provision	0.7	21.3	-
Reclassification of bad debt provision on debtors	-	0.7	-
Exchange adjustments	0.1	0.3	-
As at 31 December 2019	37.2	207.6	-
Net technical provisions			
As at 1 January 2019	211.0	581.2	-
As at 31 December 2019	233.7	614.2	-

For the assessment of first-party COVID-19 losses, underlying policies' exposure to event cancellation and business interruption losses resulting from the pandemic were considered. Expected losses were then assumed by considering the individual contract wordings for each policy. A key uncertainty is the future event cancellation exposure in 2021 within the contingency book. Event cancellation losses are assumed to occur during the first half of 2021 in line with that experienced during 2020, with an assumption of a return to some form of normality in the second half of 2021.

Notes to the syndicate annual accounts continued

14 Technical provisions continued

Gross ultimate claims	2010 ^a %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %
Cyber & Executive Risk											
12 months		75.3	72.0	72.0	67.7	66.4	63.9	61.5	63.1	63.6	75.4
24 months		74.2	72.3	72.1	68.5	66.1	63.2	61.9	62.5	69.5	
36 months		81.8	68.9	71.5	61.2	61.7	59.4	57.0	63.4		
48 months		81.9	53.8	67.4	60.7	57.4	58.2	56.9			
60 months		87.7	51.7	66.6	64.9	58.8	56.4				
72 months		80.3	49.2	62.8	63.7	58.3					
84 months		84.4	47.6	63.2	63.1						
96 months		86.5	47.6	62.5							
108 months		88.7	47.4								
120 months		89.0									
Marine											
12 months		54.8	56.0	56.9	56.9	57.8	59.4	67.9	62.2	60.2	57.6
24 months		47.5	46.3	52.2	47.0	53.8	70.2	62.2	68.6	55.8	
36 months		39.2	34.6	44.8	47.3	47.1	65.5	61.5	66.6		
48 months		33.8	32.1	43.1	46.9	45.1	64.0	57.8			
60 months		35.5	31.3	42.4	56.0	43.0	62.6				
72 months		31.9	30.5	41.8	54.0	42.4					
84 months		31.0	29.8	40.6	52.8						
96 months		29.5	29.6	39.6							
108 months		29.4	29.7								
120 months		29.4									
Political, Accident & Contingency											
12 months		58.6	62.5	57.3	56.5	55.0	55.7	56.1	55.7	57.2	150
24 months		38.7	43.4	42.4	40.7	51.8	40.5	44.5	50.3	206.3	
36 months		33.4	39.9	35.6	35.6	46.5	35.0	40.3	119.0		
48 months		27.4	38.2	34.9	41.9	46.8	32.7	42.8			
60 months		25.8	35.7	39.7	44.8	40.4	30.9				
72 months		23.1	35.5	40.0	47.4	38.4					
84 months		22.6	34.0	39.9	49.3						
96 months		22.6	33.1	39.2							
108 months		22.6	32.8								
120 months		22.5									
Property											
12 months		54.0	65.8	55.1	53.7	55.5	59.3	72.4	63.4	53.2	67.9
24 months		53.1	47.1	49.1	48.2	49.5	68.8	88.5	63.5	63.3	
36 months		43.7	39.2	45.3	41.8	46.4	71.8	91.2	65.4		
48 months		41.9	36.0	45.1	41.3	45.3	72.3	91.3			
60 months		40.9	35.6	44.4	40.4	44.6	72.4				
72 months		39.8	35.1	46.3	40.9	47.0					
84 months		39.3	35.2	45.7	40.4						
96 months		38.9	36.5	46.3							
108 months		38.9	37.6								
120 months		39.1									

14 Technical provisions *continued*

Gross ultimate claims	2010 ^{ae} %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %		
Reinsurance													
12 months		78.3	62.8	60.0	61.4	65.9	68.0	121.3	98.5	102.3	80.2		
24 months		77.4	37.0	46.1	33.4	33.6	41.6	116.6	124.4	70.3			
36 months		70.0	31.5	43.5	30.8	25.6	40.4	128.3	122.9				
48 months		66.2	30.4	42.1	27.7	25.4	41.2	131.0					
60 months		63.4	30.6	39.2	27.5	25.3	40.5						
72 months		63.2	30.4	38.9	27.0	25.0							
84 months		58.3	30.4	38.0	27.0								
96 months		58.4	30.1	37.9									
108 months		58.9	30.0										
120 months		58.8											
Specialty Lines													
12 months		75.5	75.5	75.4	71.1	70.9	69.2	67.7	69.7	67.3	67.7		
24 months		75.5	75.6	74.9	70.8	70.9	69.2	67.0	69.6	68.4			
36 months		74.8	74.0	74.5	66.9	71.7	62.9	67.9	67.2				
48 months		75.6	74.2	69.1	62.9	70.3	59.0	64.3					
60 months		71.3	71.9	63.2	59.3	71.7	57.8						
72 months		68.0	70.8	60.9	56.4	82.7							
84 months		63.9	69.4	59.6	55.3								
96 months		61.1	73.0	58.0									
108 months		59.0	74.9										
120 months		58.6											
Total													
12 months		66.2	64.6	63.6	62.2	62.8	63.8	72.4	68.1	65.8	73.4		
24 months		61.7	56.6	58.5	54.8	57.6	62.9	73.2	71.0	74.8			
36 months		58.9	51.0	55.3	50.7	54.0	59.9	73.8	74.1				
48 months		56.9	47.3	52.8	49.5	52.2	58.4	72.5					
60 months		56.2	45.9	51.0	51.1	51.9	57.3						
72 months		53.2	44.9	50.1	50.1	54.9							
84 months		51.8	44.1	49.4	49.6								
96 months		51.0	45.2	48.8									
108 months		50.8	45.9										
120 months		50.7											
Total ultimate losses (\$m)		1,613.0	172.0	155.2	173.8	179.8	208.1	225.5	326.6	362.6	394.7	405.0	4,216.3
Less paid claims (\$m)		(1,573.5)	(158.5)	(136.7)	(153.0)	(161.5)	(155.9)	(168.8)	(218.8)	(182.7)	(92.9)	(29.8)	(3,032.0)
Less unearned portion of ultimate losses (\$m)		-	-	-	-	-	-	-	-	-	(22.9)	(191.8)	(214.7)
Gross claims liabilities (\$m)		39.5	13.5	18.5	20.8	18.3	52.2	56.7	107.8	179.9	278.9	183.4	969.6

Notes to the syndicate annual accounts continued

14 Technical provisions continued

Net ultimate claims	2010 ^{ae} %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %
Cyber & Executive Risk											
12 months		71.6	68.5	68.2	64.9	62.5	61.0	59.9	60.3	60.6	73.1
24 months		70.9	69.0	68.3	65.7	62.1	60.4	59.8	59.7	63.3	
36 months		74.5	65.3	66.3	60.1	59.1	57.0	55.2	64.4		
48 months		73.3	51.0	60.8	56.7	53.8	56.0	55.0			
60 months		77.6	50.3	59.8	60.3	54.2	52.3				
72 months		75.2	48.4	57.0	59.6	50.2					
84 months		78.0	47.0	56.7	58.6						
96 months		79.7	47.0	55.1							
108 months		82.4	46.9								
120 months		82.2									
Marine											
12 months		55.4	55.2	56.4	56.6	56.5	56.5	57.2	59.6	56.6	54.0
24 months		47.5	45.7	53.2	48.7	52.2	62.3	61.1	68.3	53.9	
36 months		38.5	36.9	47.7	46.7	46.6	61.7	61.5	69.3		
48 months		34.2	34.6	46.1	45.8	46.2	62.2	59.3			
60 months		35.3	33.5	45.5	47.1	45.0	60.9				
72 months		32.1	32.8	45.0	45.4	44.5					
84 months		31.1	32.4	42.9	44.7						
96 months		29.9	32.3	42.7							
108 months		29.9	32.3								
120 months		29.9									
Political, Accident & Contingency											
12 months		54.8	59.0	54.5	53.4	51.6	52.3	52.6	52.8	55.4	114.6
24 months		37.4	41.7	41.2	38.7	48.4	36.7	41.7	47.4	156.6	
36 months		31.6	38.6	36.4	33.1	45.3	34.3	36.8	102.3		
48 months		28.8	38.2	33.9	44.3	44.5	31.3	37.7			
60 months		27.2	34.6	36.4	45.6	39.5	30.0				
72 months		24.5	34.2	37.2	48.2	38.4					
84 months		23.9	33.7	37.7	49.4						
96 months		23.9	33.3	37.6							
108 months		24.0	32.9								
120 months		23.9									
Property											
12 months		58.7	64.2	56.4	54.4	54.9	57.6	76.0	64.4	56.4	67.9
24 months		62.0	52.8	56.3	51.2	50.5	69.5	93.5	66.9	66.2	
36 months		53.1	46.1	51.9	44.6	47.1	71.4	95.5	68.2		
48 months		49.6	41.2	50.0	43.4	44.9	70.9	93.4			
60 months		48.1	40.7	49.4	42.4	45.0	70.0				
72 months		47.0	40.3	51.3	43.5	46.8					
84 months		46.7	40.1	51.3	43.0						
96 months		46.5	41.7	51.8							
108 months		46.5	42.5								
120 months		46.8									

14 Technical provisions *continued*

Net ultimate claims	2010 ^{ae} %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	
Reinsurance												
12 months		88.5	66.5	57.8	58.7	61.8	61.4	103.9	86.8	88.1	75.6	
24 months		81.3	44.4	53.0	37.9	34.7	39.2	93.0	100.2	71.4		
36 months		80.3	38.0	49.0	34.1	24.9	38.8	103.9	98.1			
48 months		74.6	36.3	47.7	31.4	24.6	40.4	107.2				
60 months		72.0	36.5	44.1	31.2	24.7	41.3					
72 months		72.3	36.2	43.8	30.8	25.0						
84 months		67.0	36.2	42.9	30.7							
96 months		67.0	35.8	42.8								
108 months		67.7	35.8									
120 months		67.7										
Specialty Lines												
12 months		71.8	71.8	71.6	68.2	66.7	66.7	65.4	67.3	64.8	64.0	
24 months		71.8	71.9	71.1	67.9	66.8	66.8	64.6	67.2	64.1		
36 months		71.0	70.4	70.6	65.1	66.5	60.8	64.9	65.0			
48 months		69.1	68.4	63.8	60.0	60.5	54.0	59.0				
60 months		67.7	67.4	58.2	56.8	60.0	50.8					
72 months		67.5	67.8	57.1	55.3	65.7						
84 months		64.8	66.9	56.1	54.2							
96 months		62.7	69.0	54.8								
108 months		61.2	70.4									
120 months		60.2										
Total												
12 months		66.5	63.8	61.9	60.5	60.0	60.7	67.6	64.8	62.4	68.7	
24 months		63.3	57.0	59.7	55.2	55.8	60.8	69.6	66.9	68.6		
36 months		59.3	52.0	56.4	51.0	52.5	58.5	69.9	70.5			
48 months		56.3	47.8	52.9	49.3	49.3	56.3	67.5				
60 months		55.9	46.8	50.9	49.3	48.7	54.2					
72 months		54.4	46.4	50.5	48.8	49.6						
84 months		53.1	45.8	49.7	48.2							
96 months		52.4	46.6	49.1								
108 months		52.4	47.1									
120 months		52.1										
Total ultimate losses (\$m)	1,149.8	145.8	131.9	148.3	149.6	158.1	177.7	253.2	285.6	305.8	308.9	3,214.7
Less Paid Claims (\$m)	(1,122.3)	(135.3)	(117.6)	(131.9)	(134.4)	(125.5)	(140.0)	(173.2)	(144.9)	(66.2)	(15.9)	(2,307.2)
Less unearned portion of ultimate losses (\$m)	-	-	-	-	-	-	-	-	-	(19.5)	(147.3)	(166.8)
Net claims liabilities (\$m)	27.5	10.5	14.3	16.4	15.2	32.6	37.7	80.0	140.7	220.1	145.7	740.7

Notes to the syndicate annual accounts continued

15 Other creditors

	2020 \$m	2019 \$m
Amount due to syndicate 2623	48.1	-
Amount due to syndicate 6107	3.8	-
Other creditors	3.1	0.5
Net amount due to other related entities	-	1.5
	55.0	2.0

Profit commissions payable are nil (2019: nil). 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 Furlonge Limited who have participated in syndicate 623 indirectly through Beazley Staff Underwriting Limited are disclosed in the managing agent's report on page 20.

The directors of Beazley Furlonge Limited have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622, 3623 and on the 2018 year of account to syndicate 5623. Syndicate 623 has capacity in 2020 of £422.6m, as previously disclosed, and writes in parallel with syndicate 2623. Beneficial shareholdings are shown below.

	Shareholding of Beazley plc as at 31 December 2020	Shareholding of Beazley plc as at 31 December 2019
D L Roberts – Chairman	82,137	50,750
R Anarfi (appointed 25 August 2020)	37,016	n/a
G P Blunden	47,000	27,000
C LaSala (appointed 2 April 2020)	53,085	n/a
S M Lake (appointed Finance Director 26 October 2020)	103,072	50,000
A P Cox – Active Underwriter	1,065,113	905,082
N H Furlonge	331,584	355,584
D A Horton – Chief Executive Officer	1,967,605	1,834,136
R Stuchbery	88,073	62,500
K W Wilkins	14,000	14,000
C C W Jones (resigned Finance Director 26 October 2020, resigned Director 26 February 2021)	61,237	43,384
A S Pryde	133,173	130,227
A J Reizenstein	11,904	10,000
I Fantozzi	119,576	115,376

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) (in liquidation);
- Beazley Leviathan Limited – (UK & Europe);
- Beazley USA Services, Inc. – (USA);
- Beazley Canada Limited – (Canada); and
- Beazley Pte Limited – (Singapore).

All of the above companies are coverholders for syndicates 623 and 2623 (the 'syndicates') and write business either directly for the syndicates or via Lloyd's Brussels. Beazley Underwriting Pty Ltd (in liquidation) is also a coverholder for syndicate 3623. The service companies in Hong Kong, Australia and Leviathan are no longer generating new business.

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 and servicing 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.

16 Related parties transactions *continued*

The syndicate is charged fees from Beazley Furlonge 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.

Since 2017, syndicate 623 ceded part of the cyber business to a special purpose syndicate 6107. Syndicate 6107 is managed by Beazley Furlonge Limited and commissions are received by the syndicate in respect of these transactions. Since 2010, syndicate 623 ceded part of the international reinsurance account to syndicate 6107.

The intercompany positions with other syndicates managed by Beazley Furlonge Limited at 31 December 2020 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 the managing agent of \$2.8m (2019: \$0.5m). In addition to this amount, the syndicate is also carrying a profit commission payable to the managing agent of nil (2019: nil).

The managing agent recharged expenses and fees of \$50.7m (2019: \$47.6m) 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.

	2020 \$m	2019 \$m
2018 Year of account	(12.9)	-
2017 Year of account	-	(5.5)
	(12.9)	(5.5)

18 Deferred acquisition costs

	2020 \$'000	2019 \$'000
At 1 January	65.5	61.8
Change in deferred acquisition costs	5.2	3.5
Exchange adjustments	0.8	0.3
Balance at 31 December	71.4	65.5

19 Foreign exchange rates

The syndicate used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into US dollars, being the syndicate's presentational currency:

	2020		2019	
	Average	Year end spot	Average	Year end spot
Sterling	0.78	0.73	0.79	0.76
Canadian dollars	1.34	1.27	1.33	1.32
Euro	0.88	0.81	0.89	0.90

2018 year of account for syndicate 623

57	Managing agent's report
58	Statement of managing agent's responsibilities
59	Independent auditor's report to the members of Syndicate 623 – 2018 closed year of account
62	Profit or loss account
63	Balance sheet closed at 31 December 2020
64	Cash flow statement
65	Statement of changes in members' balances
66	Notes to the 2018 syndicate underwriting year accounts
71	Seven-year summary of closed year results at 31 December 2020
72	Managing agent corporate information



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 2018 year of account which has been closed by reinsurance to close at 31 December 2020; consequently the balance sheet represents the assets and liabilities of the 2018 year of account and the profit or loss account reflect the transactions for that year of account during the 36 months period until closure. The 2018 closed year of account loss (\$12.8m) includes a reinsurance to close surplus from the 2017 year of account of \$5.9m (note 6).

Principal activity

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

Directors

A list of directors of the managing agent who held office during the current year can be found on page 72 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

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

On behalf of the board

S M Lake

Finance Director

2 March 2021

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 (Lloyd'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 (Lloyd'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 (Lloyd'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

S M Lake

Finance Director

2 March 2021

Independent auditor's report to the members of Syndicate 623

2018 closed year of account

Opinion

We have audited the syndicate underwriting year accounts for the 2018 year of account of syndicate 623 ('the syndicate') for the three years ended 31 December 2020 which comprise the Profit or loss account, the Balance sheet, the Cash flow statement, the Statement of changes in members' balances and the related notes 1 to 13, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate underwriting year accounts:

- give a true and fair view of the loss for the 2018 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate underwriting year accounts section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate underwriting year accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – closure of the 2018 year of account

We draw attention to the Basis of preparation which explains that the 2018 year of account of syndicate 623 has closed and all assets and liabilities transferred to the 2019 year of account by reinsurance to close at 31 December 2020.

As a result, the 2018 year of account of syndicate 623 is no longer a going concern. The reinsurance to close occurs in the normal course of business for a syndicate year of account at the 36 months stage of development and the syndicate underwriting year accounts have been prepared on the basis that the recorded assets and liabilities will be realised and discharged in the normal course of business.

Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the syndicate underwriting year accounts and our auditor's report thereon. The managing agent is responsible for the other information contained within the annual report.

Our opinion on the syndicate underwriting year accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year accounts or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate underwriting year accounts themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Syndicate 623 continued 2018 closed year of account

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 58, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and The Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate underwriting year accounts, the managing agent is responsible for assessing the syndicate's ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

Auditor's responsibilities for the audit of the syndicate underwriting year accounts

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the managing agent and management.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations, related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UKGAAP) and requirements referred to by Lloyd's in the Instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate underwriting year accounts included permissions and supervisory requirements of the Lloyd's of London, Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate underwriting year accounts' items.

- For both direct and other laws and regulations, our procedures involved: making enquiry of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the syndicate's underwriting year accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud.
- We also considered areas of significant judgement, including complex transactions, performance targets, external pressures and their potential to influence management to manage earnings or influence the perceptions of stakeholders. The fraud risk is considered to be higher for valuation of insurance liabilities and the recognition of estimated premium income.

Our audit procedures included:

- Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries we assessed if there were any indicators of management bias in the valuation of insurance liabilities and the recognition of estimated premium income.
- Evaluating the business rationale for significant and/or unusual transactions.
- Testing manual journals and were designed to provide reasonable assurance that the syndicate underwriting year accounts were free from fraud or error.

In addition, we considered the impact of Covid-19 on the syndicate, including an assessment of the consistency of operations and controls in place as they transitioned to operating remotely for a significant proportion of 2020, making enquiries with management via the use of video conferencing. We performed analytical review procedures to assess for unusual movements throughout the year. Our audit procedures also incorporated unpredictability into the nature, timing and extent of our testing.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with The Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Wilson

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

2 March 2021

Notes:

- 1 The maintenance and integrity of the managing agent's web site is the responsibility of the managing agent; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the syndicate underwriting year accounts since they were initially presented on the web site.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of syndicate underwriting year accounts may differ from legislation in other jurisdictions.

Profit or loss account

2018 year of account for the 36 months ended 31 December 2020

	Notes	2018 year of account \$m
Gross premiums written	3	483.7
Outward reinsurance premiums		(79.8)
Earned premiums, net of reinsurance	3	403.9
Allocated investment return transferred from the non-technical account		16.3
Reinsurance to close premiums received, net of reinsurance	4	324.6
		340.9
Gross claims paid		(294.7)
Reinsurers' share		65.5
Claims incurred, net of reinsurance		(229.2)
Reinsurance to close premiums payable, net of reinsurance	5	(368.3)
		(597.5)
Net operating expenses	7	(152.9)
Balance on the technical account	3	(5.6)
Investment income		12.4
Investment expenses and charges	8	(0.9)
Realised gains on investments		3.4
Unrealised gain on investments		1.4
		16.3
Allocated investment return transferred to the technical account		(16.3)
Other charges		0.2
Loss on foreign exchange		(7.4)
Loss for the 2018 closed year of account	6	(12.8)
Syndicate allocated capacity (£m)		350.9
Loss for the 2018 closed year of account (£m)		(9.5)
Loss on capacity		(2.7%)

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

Balance sheet

closed at 31 December 2020

	Notes	2018 year of account \$m
Assets		
Financial assets at fair value	9	330.8
Debtors	10	39.1
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	5	125.7
Prepayments and accrued income		2.6
Cash at bank and in hand		6.2
Total assets		504.4
Liabilities		
Amounts due from members	11	(12.8)
Reinsurance to close premium payable to close the account – gross amount	5	495.8
Creditors	12	18.5
Accruals and deferred income		2.9
Total liabilities		504.4

The underwriting year accounts on pages 62 to 70 were approved by the board of directors on 2 March 2021 and were signed on its behalf by:

A P Cox

Active Underwriter

S M Lake

Finance Director

Cash flow statement

2018 year of account for the 36 months ended 31 December 2020

	2018 year of account \$m
Reconciliation of loss for the financial year to net cash inflow from operating activities	
Loss for the financial year	(12.8)
Increase in gross reinsurance to close payable	495.8
Increase in reinsurers' share of reinsurance to close	(125.7)
Increase in debtors	(39.0)
Increase in creditors	18.5
Increase in prepayments	(2.6)
Increase in accruals	2.8
Investment return	(16.3)
Net cash flows from operating activities	320.7
Net purchase of financial instruments	(326.0)
Cash received from investment income	11.5
Net cash from investing activities	(314.5)
Transfer to members in respect of underwriting participations	-
Net cash from financing activities	-
Net increase in cash and cash equivalents	6.2
Cash and cash equivalents at 1 January 2018	-
Cash and cash equivalents at 31 December 2020	6.2

Statement of changes in members' balances

for the 36 months ended 31 December 2020

	2018 year of account \$m
Loss for the 2018 closed year of account	(12.8)
Amounts due from members at 31 December 2020	(12.8)

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 2020

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 2018 year of account which closed on 31 December 2020. The accumulated profits of the 2018 year of account will be distributed shortly after publication of these accounts. Therefore the 2018 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 2018 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.
- f) Please refer to note 1 Accounting policies in syndicate 623 annual accounts for details around measurement of insurance contracts and financial instruments.

Comparatives

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

1 Accounting policies *continued*

Investment return

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

- k) 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.
- l) 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

- m) 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.
- n) 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

- o) The syndicate operates in four separate currency funds of sterling, euro, US dollars and Canadian dollars. Items going through the profit or loss account in sterling, euro and Canadian dollars are translated to US dollars at the three years' average rates of exchange. 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. The euro, sterling and Canadian dollar three years' average exchange rates ruling at 31 December 2020 are euro 0.87, sterling 0.77 and Canadian dollar 1.32.

2 Risk management

The 2018 year of account has closed and all assets and liabilities have been transferred to a reinsuring year of account. The result for the year of account was declared in sterling so there is no exchange rate risk. To this extent, the risks that it is exposed to in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account as disclosed in the syndicate annual accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102. Full disclosures relating to these risks are provided in the syndicate annual accounts.

2.1 Capital management

Please refer to note 2.10 in syndicate 623 annual accounts.

Notes to the syndicate underwriting year accounts continued

3 Segmental analysis

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

2018 year of account	Cyber & Executive Risk \$m	Marine \$m	Political, Accident & Contingency \$m	Property \$m	Reinsurance \$m	Specialty Lines \$m	Unallocated \$m	Total \$m
Gross premiums written	114.3	61.7	26.5	88.6	44.6	148.0	-	483.7
Outward reinsurance premiums	(18.8)	(10.2)	(4.4)	(14.6)	(7.4)	(24.4)	-	(79.8)
Net earned premiums	95.5	51.5	22.1	74.0	37.2	123.6	-	403.9
Gross claims	(74.0)	(40.4)	(30.4)	(56.7)	(54.6)	(97.1)	-	(353.2)
Reinsurer's share of claims	12.2	8.0	10.1	6.0	28.7	15.3	-	80.3
Net claims	(61.8)	(32.4)	(20.3)	(50.7)	(25.9)	(81.8)	-	(272.9)
Operating expenses	(30.7)	(22.3)	(9.6)	(32.3)	(9.9)	(48.1)	-	(152.9)
Technical result before investment income	3.0	(3.2)	(7.8)	(9.0)	1.4	(6.3)	-	(21.9)
Investment income	-	-	-	-	-	-	16.3	16.3
Balance on technical account	3.0	(3.2)	(7.8)	(9.0)	1.4	(6.3)	16.3	(5.6)
Claims ratio	65%	63%	92%	68%	70%	66%	-	67%
Expense ratio	32%	43%	43%	44%	26%	39%	-	38%
Combined ratio	97%	106%	135%	112%	96%	105%	-	105%

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

- Cyber & Executive Risk – cyber and management liability;
- 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 Reinsurance to close premiums received

	2018 year of account \$m
Gross reinsurance to close premiums received	433.7
Reinsurance recoveries anticipated	(109.1)
Reinsurance to close premiums received, from 2018 and earlier, net of reinsurance	324.6

5 Reinsurance to close premiums payable

	2018 year of account \$m
Gross reinsurance to close premiums payable	492.1
Reinsurance recoveries anticipated	(123.8)
Foreign exchange	1.8
Reinsurance to close premiums payable to 2019 net of reinsurance	370.1

	Reported \$m	URR \$m	IBNR \$m	Total \$m
Reinsurance to close premium payable	189.7	0.6	305.5	495.8
Reinsurance recoveries anticipated	(39.9)	(0.1)	(85.7)	(125.7)
Reinsurance to close premiums payable, net of reinsurance	149.8	0.5	219.8	370.1

6 Analysis of the 2018 year of account result

	2018 year of account \$m
Amount attributable to business allocated to the 2018 year of account	(18.7)
Surplus on the reinsurance to close for the 2017 year of account	5.9
	(12.8)

7 Net operating expenses

	2018 year of account \$m
Acquisition costs	127.6
Members' standard personal expenses	10.0
Administrative expenses	15.3
	152.9

Administrative expenses include:

	\$m
Audit services	0.2

8 Investment expenses and charges

	2018 year of account \$m
Investment management expenses	0.9
	0.9

Notes to the syndicate underwriting year accounts continued

9 Financial assets

	2018 year of account \$m
Financial assets at fair value	
Fixed and floating debt securities	288.4
Equity linked funds	10.0
Hedge funds	28.1
Illiquid credit assets	2.4
Rights under derivative contracts	1.9
	330.8

10 Debtors

	2018 year of account \$m
Net amounts due from other related entities	-
Other debtors	39.1
	39.1

These balances are due within one year.

11 Amounts due from members

	2018 year of account \$m
Loss for the 2018 closed year of account before standard personal expenses	(2.8)
Members standard personal expenses	(10.0)
Amounts due from members at 31 December 2020	(12.8)

12 Creditors

	2018 year of account \$m
Profit commission payable	-
Net amounts due to other related entities	12.0
Other creditors	6.5
	18.5

The above balances are payable within one year.

13 Related party transactions

Beazley Furlonge Limited, the managing agency of syndicate 623, is a wholly-owned subsidiary of Beazley plc. The directors of Beazley Furlonge Limited who have participated in syndicate 623 indirectly through Beazley Staff Underwriting Limited are disclosed in the managing agent's report of the annual accounts on page 54.

The intercompany positions with other syndicates managed by Beazley Furlonge Limited at 31 December 2020 are included in note 12 (creditors).

Seven-year summary of closed year results (unaudited)

at 31 December 2020

	2018	2017	2016	2015	2014	2013	2012
Syndicate allocated capacity – £'000	350,915	304,482	257,277	230,252	242,760	224,698	214,167
Syndicate allocated capacity – \$'000	456,190	408,005	403,924	393,730	368,995	352,775	325,533
Capacity utilised	86%	88%	79%	76%	79%	84%	84%
Aggregate net premiums – \$'000	312,072	278,651	251,561	230,828	235,380	234,093	204,582
Underwriting profit as a percentage of gross premiums	0.9%	0.2%	19.3%	25.5%	27.9%	23.5%	31.3%
Return on capacity	(2.7%)	(2.4%)	8.7%	15.5%	18.6%	10.8%	13.6%

Results for an illustrative £10,000 share

Gross premiums – \$'000	11,167	11,820	12,464	12,958	11,957	13,189	13,092
Net premiums	8,893	9,152	9,778	10,025	9,696	10,418	9,909
Reinsurance to close from an earlier account	9,251	9,766	12,034	13,560	13,216	14,561	16,181
Net claims	(6,533)	(7,108)	(6,692)	(6,335)	(5,755)	(6,545)	(6,199)
Reinsurance to close the year of account	(10,495)	(10,660)	(11,656)	(13,242)	(13,106)	(14,576)	(15,698)
Underwriting profit	1,116	1,150	3,464	4,008	4,051	3,858	4,193
(Loss)/profit on foreign exchange	(194)	(15)	(136)	(40)	326	22	(38)
Syndicate operating expenses	(1,542)	(1,866)	(2,102)	(1,843)	(1,890)	(1,984)	(1,923)
Balance on technical account	(620)	(731)	1,226	2,125	2,487	1,896	2,232
Gross investment return	464	609	356	582	494	337	528
Profit before personal expenses	(156)	(122)	1,582	2,707	2,981	2,233	2,760
Illustrative personal expenses							
Illustrative personal expenses	(211)	(189)	(246)	(233)	(190)	(214)	(188)
Managing agent's profit commission	-	-	(230)	(411)	(427)	(383)	(449)
(Loss)/profit after illustrative profit commission and personal expenses (\$)	(367)	(311)	1,106	2,063	2,364	1,636	2,123
(Loss)/profit after illustrative profit commission and personal expenses (£)	(270)	(236)	866	1,548	1,862	1,083	1,360

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 Roberts¹ – Chairman
R Anarfi (appointed 25 August 2020)
G P Blunden¹
C LaSala¹ (appointed 2 April 2020)
S M Lake (appointed Finance Director 26 October 2020)
A P Cox – Active Underwriter
N H Furlonge¹
D A Horton – Chief Executive Officer
R Stuchbery¹
K W Wilkins¹
C C W Jones (resigned Finance Director 26 October 2020, resigned Director 26 February 2021)
A S Pryde
A J Reizenstein¹
I Fantozzi
N Wall¹ (appointed 1 February 2020)

¹ Non-Executive Director.

Company secretary

C P Oldridge

Managing agent's registered office

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London
EC3R 5AD
United Kingdom

Registered number

01893407

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25 Churchill Place
London
E14 5EY

Banker

Deutsche Bank AG
6 Bishopsgate
London
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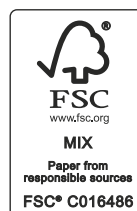
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