

FIDELIS UNDERWRITING LIMITED
Annual report and financial statements
For the year ended 31 December 2020

Strategic report

The directors present their strategic report for the year ended 31 December 2020.

Business review

Fidelis Underwriting Limited (“FUL” or, “the Company”) is a 100% directly owned subsidiary of Fidelis Insurance Holdings Limited (“FIHL”) and is part of the Fidelis Group (“the Group”), which also comprises Fidelis Insurance Bermuda Limited (“FIBL”), Fidelis European Holdings Limited (“FEHL”), Fidelis Insurance Ireland Designated Activity Company (“FIID”) and Fidelis Marketing Limited (“FML”). FUL is regulated by the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”).

The Group also comprises Pine Walk Capital Limited (“Pine Walk”), Radius Specialty Limited (“Radius”), Oakside Surety Limited (“Oakside”), Aware Specialty Limited (“Aware”), Kersey Specialty Limited (“Kersey”) and Perigon Product Recall Limited (“Perigon”). Radius, Oakside, Kersey and Perigon act as Managing General Agencies (“MGAs”) for business which is written in FUL. Aware is in the process of being dissolved.

In the year to 31 December 2020 the Company made a profit after tax of \$24.1 million (2019: \$9.5 million) and wrote \$723.1 million of gross premium (2019: \$311.3 million). The Company received capital contributions of \$25.0 million in May 2020, \$100.0 million in June 2020, \$60.0 million in August 2020 and \$60.0 million in November 2020 from FIHL for the issue of four shares (2019: \$108.3 million, 2 shares) in order take advantage of the hardening market.

Since the start of 2020, many countries have experienced an outbreak of the COVID-19 virus and on March 11, 2020, the World Health Organization declared the disease to be a global pandemic. The situation continues to develop, and the long-term impact of this pandemic is unclear at this time. Management is monitoring the developments closely and has recognised the impacts in these financial statements as appropriate. Areas within the financial statements that have a potential to be impacted include valuation of the Company’s investment portfolio and net reserves for losses and loss expenses. The potential for losses arising from COVID-19 have been and will continue to be monitored and discussed by management.

Due to the pandemic, a portion of the Company’s staff is working remotely in line with the Government’s advice. There has been no disruption to client or customer service capabilities, the Company continues to bind business and assess and settle claims, and customers continue to be treated fairly. There has been no material disruption relating to the services that the Company receives from its key outsourced services providers.

In June 2020, the FCA issued proceedings against a group of insurers in a test case designed to clarify the interpretation and application of commonly-used insurance coverage extensions under business interruption insurance policy wordings, in the context of losses arising from the COVID-19 pandemic, and in September 2020, the High Court delivered judgment in this case. The test case was not intended to encompass all possible disputes, but to resolve some key contractual uncertainties and causation issues to provide clarity for policyholders and insurers. However, each policyholder’s claim is different and the ultimate outcome from this case will depend on the relevant policy and underlying circumstances. The Company is not a party to this case and writes a limited amount of policies that could be directly impacted by the test case. In late September, the parties to this test case appealed to the U.K. Supreme Court.

The Supreme Court judgment was given in January 2021 and there were two key findings. First, it was held that the majority of the test case policies were triggered by the government lockdowns in 2020. This is of little direct relevance to the Company as it writes a limited amount of these policies. Second, and of relevance to the entire Insurance Market, the Supreme Court held that the basis of assessing the quantum of business interruption losses should be altered; overruling the Orient Express case. The effect of overruling this established case will be to increase the quantum of business interruption losses in the insurance market generally, the Company will be affected by this, as will the rest of the insurance and reinsurance market.

We have performed an analysis to estimate potential exposure to property business interruption losses from COVID-19. In general, our portfolio is more focused on residential exposure and the vast majority of cedants have strong exclusions in place. This reduces the potential for losses through Property Business Interruption. There are currently no notifications for which a material incurred loss is booked.

FIDELIS UNDERWRITING LIMITED
Annual report and financial statements
For the year ended 31 December 2020

As part of its Brexit strategy, the Group established an insurer in the Republic of Ireland which writes bespoke and specialty insurance and reinsurance to non-UK EEA customers. FUL ceased to have liabilities to non-UK EEA insurance in 2019.

The directors have considered and applied their statutory duty to promote the success of the Company under S172 of the Companies Act 2006, and in so doing, have regarded the issues, factors and stakeholders relevant to each of the following:

The likely consequences of any decision in the long term

These are considered three times a year as part of the business planning process and on an ongoing basis within the ORSA report, looking three years forward. Additionally, the Company will undertake an ORSA if there is a material change to the risk profile of the organisation. All strategic decisions, including changes to FUL's capital, corporate and Board structures, dividend declarations and changes to accounting and outsourcing policies, are approved by the Board as per the Board Terms of Reference and Matters Reserved for the Board.

The interests of the Company's employees

A set of legally compliant, culturally appropriate and best practice human resources policies underpins the interests of the Company's employees. The human resources function delivers an annual performance management and compensation review which includes the benchmarking of employees' salaries against market data and a calibration of fairness and consistency across multiple variables including function, gender, and ethnicity. The performance management system in particular takes a balanced score card approach which includes assessment against the Fidelis ethos; a key element of the working culture. Ownership for professional development sits with employees and is supported by managers and by the human resources infrastructure which includes a learning and development portal housed on the Group's intranet. The Company has a vision for diversity and inclusion, "Bring Your Whole Self to Work". This vision, and the associated diversity and inclusion strategy and annual plan is intended to establish a culture whereby all employees can thrive and share in the rewards of a successful business.

The need to foster the Company's business relationships with suppliers, customers and others

Statistics regarding our adherence to supplier payment terms are regularly reviewed and published. We track the speed of claims payments to our customers and review this on a weekly basis. As a regulated financial services company, FUL is obliged to treat its customers fairly at all times.

The impact of the Company's operations on the community and the environment

FUL has a commitment to its communities, which we recognise includes environmental responsibilities. In line with our Group Carbon Positivity Policy, we measure our carbon emissions and purchase 150% in equivalent carbon credits. Through the development of best practices in our business, the Company aims to use no more consumables than are necessary and recycle the maximum of those we do use. The Company also believes that embedding environmental awareness throughout the organisation will be best achieved through a continuous programme of employee engagement.

FUL takes account of environmental, social and governance issues in its underwriting. We will not offer insurance to companies that extract coal or generate energy using coal. In political risk underwriting, we require and review social, economic and environmental impact studies for infrastructure projects. We consider animal welfare as a top priority and decline risks associated with intensive farming, abattoirs and animal testing.

The desirability of the Company maintaining a reputation for high standards of business conduct

FUL has a compliance function which seeks to be a trusted advisor to the business, driving and supporting innovation whilst partnering with the business and regulators to ensure regulatory obligations are met. The compliance function seeks to ensure that FUL's culture and behaviours put clients' interests at the heart of its business activities and that FUL acts with integrity in the market.

The need to act fairly between members of the Company

All interactions with other Group entities are carried out at arm's length and are governed by service level agreements.