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HISCOX

Hiscox Syndicate 3624
Report and Accounts
2017

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Contents

Directors and administration
Hiscox Syndicate 3624

Managing agent:

Managing agent
Hiscox Syndicates Limited (HSL) is the managing agent of aligned Syndicate 3624, composite Syndicate 33, and Special Purpose Syndicate 6104. HSL is an indirectly wholly owned subsidiary of Hiscox Ltd.

Directors
R S Childs – Non Executive Chairman
C J Foulger – Non Executive
H A Hussain
H Kam
H C V Keeling – Non Executive
M C S Krefta
P A Lawrence
K J M Markham
I J Martin
B E Masojada
J Pinchin
R C Watson
A C Winther – Non Executive

Company secretary
D J Gormley

Managing agent's registered office
1 Great St Helen's
London
EC3A 6HX

Managing agent's company number
02590623

Syndicate:

Active underwriter
J Musselle

Bankers
Lloyds Bank PLC
Citibank

Investment manager
Payden & Rygel Global Limited

Registered auditors
PricewaterhouseCoopers LLP

Report of the Directors of the managing agent
Hiscox Syndicate 3624 annual accounts

The Directors of the managing agent present their report for Syndicate 3624 for the year ended 31 December 2017.

This Annual Report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. The Syndicate continues to adopt the going concern basis in preparing the syndicate annual accounts.

Results
The result for Syndicate 3624 in calendar year 2017 is a loss of £45.4 million (2016: £15.9 million profit). The Syndicate's key financial performance indicators during the year were as follows:

	2017 £m	2016 £m	% change
Gross premiums written	408.8	533.5	(23)
Gross premiums earned	494.3	478.3	3
Net premiums earned	411.0	381.7	8
Total recognised (loss)/profit for the year	(45.4)	15.9	(386)
Claims ratio (%)	72	56	16
Commission ratio (%)	34	36	(2)
Expense ratio (%)	5	6	(1)
Combined ratio (%)	111	98	13

In calculating the claims and expense ratios, foreign exchange gains and losses are allocated to the claims ratio.

Principal activity
The principal activity of Syndicate 3624 is the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's of London. Syndicate 3624 trades through the Lloyd's worldwide licences and rating. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from S&P's and AA- (Very strong) rating from Fitch.

The geographical and currency split of its business is shown below:

Geographical split of gross premiums written (%)	2017	2016
UK	5	2
Europe	5	3
North America	84	72
Asia	1	1
Rest of the world	5	22

Gross premiums written settlement currency (%)	2017	2016
Pound Sterling	8	15
Euro	1	7
US Dollar	90	74
Canadian Dollar	1	4

Review of the business
The result for the year was a loss of £45.4 million (2016: £15.9 million profit). The written premium by class of business is shown below:

Division	2017 Gross premiums written £m	2016 Gross premiums written £m
Auto fire, theft and collision	48.3	125.9
Auto extended warranty	(3.9)	79.8
Portfolios	32.6	33.6
US liability classes	133.4	100.1
US general liability	36.7	14.7
US property classes	17.8	17.3
Technology, media and telecoms	69.8	61.6
Reinsurance	23.9	18.7
Other smaller accounts	50.2	81.8
Total	408.8	533.5

Report of the Directors of the managing agent continued
Hiscox Syndicate 3624 annual accounts

Review of the business continued
Syndicate 3624 was established as an aligned corporate syndicate for the 2009 year of account. Initially all of the Syndicate's business was generated through Hiscox owned distribution channels, in particular Hiscox Inc., the Group's service company in the US. In subsequent years a number of additional lines of business were added to the portfolio, some of which were sourced through Hiscox owned service companies and some through normal London Market broking channels. However, more recently, the portfolio has begun to revert to its original constitution (albeit much larger) as a number of lines have either been discontinued or transferred to Syndicate 33 for reasons of management and operational efficiency.

The principal classes of business written by the Syndicate include:

Auto fire, theft and collision
This account focuses on FTC (fire, theft and collision) business sourced through the White Oak Underwriting Agency Limited in which Hiscox has a 29.8% shareholding and the active underwriter of the Syndicate, Richard Watson, is a Director. The account has a focus on agricultural and forestry equipment. Towards the end of 2016 we took a decision to scale this account back which we did in 2017 and we have ceased writing this business entirely in 2018.

Auto extended warranty
This account is also sourced through the White Oak Underwriting Agency Limited. This account was put into run off late in 2016. The negative premium in the year arose from downward revisions to binding authority premium estimates during 2017.

Portfolios
This account seeks to utilise alternative distribution approaches including supporting the consortia arrangements of other specialist underwriters in the Lloyd's market. This account was transferred to Syndicate 33 for 2018 year of account.

US liability classes
This account is written through Hiscox Inc., Hiscox US's service company. The Syndicate pays a commission to Hiscox Inc. to source smaller premium allied healthcare, E&O, D&O and financial lines business from the Hiscox offices on the ground in the US.

US general liability
This is a stand-alone general liability market product which has seen large year-on-year growth. The strategy is to expand and diversify the portfolio, reducing the weighting of New York City contractors and to expand into other segments such as hospitality and grocery chains.

US property classes
This account, sourced through Hiscox Inc., includes commercial property business written through wholesale brokers in the US and a construction account which is now in run off.

Technology, media and telecoms
This account provides liability insurance for clients from the technology, media and entertainment industries and is sourced through the Hiscox owned service companies in the US, Europe and UK together with the growing cyber insurance account.

Reinsurance
This account includes casualty reinsurance business written through the Hiscox service company in Bermuda and a small quota share of the property reinsurance business written by Hiscox Bermuda.

Other smaller accounts
This includes aviation, healthcare, insurance for event cancellation, pilot's loss of licence and a London Market product recall account.

Following a review of the business it was decided that the healthcare account would not continue beyond the first few months of 2017.

A decision was made in autumn 2017 to transfer the London Market aviation account to Syndicate 33 for 2018 year of account, to align the legal entity ownership closer to the related business unit expertise. In February 2018 it was decided to withdraw from this line of business due to continuing poor market conditions.

The Syndicate made a loss of £45.4 million in the year primarily driven by the discontinued classes, a large loss on the product recall account and the impact of the hurricanes on the property account. The core US liability account performed well achieving a good level of growth and profitability.

2018 and the future
For 2018 the Syndicate will become focused on retail insurance sourced primarily from the Hiscox owned service companies, in particular Hiscox Inc. in the US. We anticipate further growth from the US liability account.

Capital
One of the main advantages of trading through Lloyd's is the considerably lower capital ratios that are available due to the diversification of business written in Syndicate 3624 and in Lloyd's as a whole. The size of the Syndicate is increased or reduced according to the strength of the insurance environment in its main classes.

Solvency II became effective from 1 January 2016 and the HSL internal capital model is used to set the Syndicate's capital. Syndicate capital is determined through the submission and agreement by Lloyd's of an ultimate solvency capital requirement (SCR) which is subject to an uplift determined by the Franchise Board to calibrate the capital required by Lloyd's.

Report of the Directors of the managing agent continued
Hiscox Syndicate 3624 annual accounts

Capital continued
Lloyd's unique capital structure provides excellent financial security to policyholders and capital efficiency for members. This chain of security provides the financial strength that ultimately backs insurance policies written at Lloyd's and has three links:

1. all premiums received by syndicates are held in trust as the first resource for paying policyholders' claims;
2. every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities. They are set with reference to the SCR together with the Lloyd's uplift. Since FAL is not under the control of the managing agent, no amount has been shown in the annual accounts. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses;
3. the central assets are available at the discretion of the Council of Lloyd's to meet any valid claim that cannot be met from the resources of any member further up the chain.

Lloyd's also retains the right to request a callable contribution equal to 3% of members' overall premium limits.

Lloyd's works in co-operation with insurance regulators in the United States and other parts of the world to strengthen further the security of a Lloyd's policy. This has resulted in significant amounts of the Syndicate's funds being held in various trust funds where they cannot be used as 'working capital' to pay claims, reinsurance premiums or expenses. This places a strain on the Syndicate's working capital. Consequently we may need to make a cash call, at some time in the future, to improve the Syndicate's working capital position.

The Syndicate has £287.0 million (2016: £192.6 million) of liquid assets at 31 December 2017. We have determined that the Syndicate has sufficient levels of liquidity to meet its funding requirements in all likely scenarios.

Investment report
Investment income for Syndicate 3624 was £4.4 million (2016: £4.3 million) equating to a return of 1.0% (2016: 1.1%). The Syndicate's invested assets totalled £466.4 million at 31 December 2017 (2016: £459.7 million). Investors took the variety of political outcomes and heightened geopolitical tensions during the year in their stride focusing instead on the positive element of global growth which was generated without any real signs of inflation. While this provided a supportive background for risk assets, it led to a more challenging environment for bond investors. As central banks made further moves towards normalising monetary policy the headwinds grew stronger in the final quarter but the return for the year was a respectable one in line with our original forecasts.

Our portfolios in 2017 increasingly had to contend with central bankers withdrawing their monetary stimulus to varying degrees. In the US, Canada and the UK there were a series of official rate rises. The Federal Reserve increased the fed funds rate three times as expected, while the Bank of Canada and the Bank of England surprised markets somewhat with their respective increases. Additionally there was a move by major central banks, apart from the Bank of Japan, to prepare investors for a reduction in their balance sheets – so called quantitative tightening. This prompted short-term bond yields to move higher, particularly in the second half of the year, as the two-year US treasury yield jumped from 1.3% to 1.9%. Against this background our short-dated government benchmark in Canadian Dollars delivered a negative return for the year while the 1-3 year US government benchmark returned just 0.4%. For the first time in many years returns on US cash exceeded the bond benchmark. A positive result of 1.2% from our bond portfolios therefore can be seen as a good one relative to the yardstick's 0.4%.

The fixed income returns were driven by our holdings in the US bond markets and our manager there performed well with gains of 1.2% while Canadian Dollars delivered a small positive return. Outperformance of our benchmarks across the board has been due to a focus on income and the allocation to non government bonds where a further compression in credit spreads added value. While the move up in yields has crimped returns recently, it is encouraging for the future as new money will be invested at higher rates.

Given the forecast that last year's synchronised global growth will continue into 2018, the expectation is that the authorities will maintain their hawkish stance, preparing investors for further reduction in their balance sheets and, in the case of the Federal Reserve, raising interest rates three or four times as

Years of account	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**
Capacity	250	250	300	350	400	460	**400**

Report of the Directors of the managing agent continued
Hiscox Syndicate 3624 annual accounts

Investment report continued
conditions permit. Despite the recent increase in yields this implies that a short duration strategy remains appropriate and that the time to lengthen will likely come into view in the second half of the year. In the meantime we remain wary that inflation may surprise on the upside and that the central banks will tighten monetary policy faster than prices currently assume. Insurance events in 2017 have emphasised the importance of maintaining good liquidity in the portfolio and our conservative stance has held us in good stead. Portfolios such as ours will be beneficiaries if interest rates increase in 2018 as we expect and in particular we are investing our US Dollar cash flow at much higher yields than we have been used to for some time. The so-called risk free returns that we enjoyed pre-crisis are still some way away but at least we are taking steps in the right direction. In the meantime we continue to resist the temptation to take more risk and lower the quality of the portfolio.

Principal risks and uncertainties
An analysis of the principal risks and uncertainties facing the Syndicate is set out in note 4.

Directors' interests
None of the Directors of the managing agent who served during the year ended 31 December 2017 were underwriting Names at Lloyd's for the 2015, 2016, 2017 or 2018 years of account.

R S Childs – Non Executive Chairman
C J Foulger – Non Executive
H A Hussain (Appointed 2 March 2017)
H Kam (Appointed 20 March 2017)
H C V Keeling – Non Executive
M C S Krefta
P A Lawrence
K J M Markham (Appointed 26 February 2018)
I J Martin
B E Masojada
J Pinchin
R C Watson
A C Winther – Non Executive

D J Gormley became Company Secretary on 3 April 2017, when he replaced J K Taylor.

Disclosure of information to the auditors
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.

Annual General Meeting
Usually the only formal business conducted at the Syndicate Annual General Meeting (AGM) is the appointment of the Syndicate auditors for the following year, and usually the attendance at the AGM, when it is held, is minimal.

In accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) (the 2008 Regulations) a Syndicate AGM was held in 2016 to appoint PricewaterhouseCoopers LLP (PwC) as the Syndicate's registered auditor. The 2008 Regulations contain provisions for the re-appointment of the Syndicate's registered auditor. Lloyd's requirements allow managing agents to dispense with the requirement to hold a Syndicate AGM, providing certain criteria are met.

This year, we therefore give notice that:
- Hiscox Syndicates Limited does not propose to hold an AGM of the members of Syndicate 3624 in 2018;
- PwC will be deemed to be re-appointed as the Syndicate's registered auditor pursuant to the 2008 Regulations;
- members may object to the matters set out above within 21 days of this notice.

If no objections to this are received from any members within the specified period, we shall notify Lloyd's to that effect.

If any objections are received, depending on the level or nature of such objections, we shall then consider whether to:
1. apply for Lloyd's consent not to hold an AGM. Lloyd's may give its consent subject to any such conditions and requirements as it may determine; or
2. convene an AGM.

By order of the Board

I J Martin
Director
16 March 2018

Statement of managing agent's responsibilities
Hiscox Syndicate 3624 annual accounts

The managing agent is responsible for preparing the Syndicate Annual Report and Accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate at that date and of its profit or loss for that year.

In preparing those syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- 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 syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume the Syndicate will do so.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the syndicate annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of the syndicate annual accounts may differ from legislation in other jurisdictions.

Independent auditor's report
To the members of Syndicate 3624

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 3624's syndicate annual accounts (the 'syndicate annual accounts'):

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 'The Financial Reporting Standard' applicable in the UK and Republic of Ireland); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Hiscox Syndicate 3624 Report and Accounts (the 'Annual Report'), which comprise: the profit and loss account for the year ended 31 December 2017, the statement of other comprehensive income for the year then ended, the balance sheet as at 31 December 2017, the statement of changes in members' balances, the statement of cash flows and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the Syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the syndicate annual accounts are authorised for issue.

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.

Reporting on other information

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

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the managing agent's report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Managing agent's report

In our opinion, based on the work undertaken in the course of the audit, the information given in the managing agent's report for the year ended 31 December 2017 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the Syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the managing agent's report.

Independent auditor's report continued

To the members of Syndicate 3624

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts

As explained more fully in the statement of managing agent's responsibilities set out on page 6, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the Syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the Syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Paul Pannell
(Senior Statutory Auditor)
For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors London
16 March 2018

Profit and loss account: technical account – general business
Year ended 31 December 2017
Hiscox Syndicate 3624 annual accounts

	Notes	2017 £000	2016 £000
Earned premiums, net of reinsurance			
Gross premiums written	5	408,795	533,471
Outward reinsurance premiums		(35,689)	(121,629)
Net premiums written		373,106	411,842
Change in the provision for unearned premiums:			
Gross amount		85,519	(55,138)
Reinsurers' share		(47,642)	25,002
Change in the net provision for unearned premiums		37,877	(30,136)
Earned premiums, net of reinsurance		410,983	381,706
Allocated investment return transferred from the non-technical account		4,356	4,318
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(301,424)	(231,829)
Reinsurers' share		93,748	83,865
Net claims paid		(207,676)	(147,964)
Change in the provision for claims:			
Gross amount		(74,669)	(74,585)
Reinsurers' share		(12,423)	8,302
Change in the net provision for claims		(87,092)	(66,283)
Claims incurred, net of reinsurance		(294,768)	(214,247)
Net operating expenses	7, 8	(160,654)	(159,699)
Balance on the technical account for general business		(40,083)	12,078

The notes on pages 16 to 33 form an integral part of these annual accounts.

Profit and loss account: non-technical account – general business
Year ended 31 December 2017
Hiscox Syndicate 3624 annual accounts

	Notes	2017 £000	2016 £000
Balance on the technical account for general business		(40,083)	12,078
Investment income	6	13,231	14,522
Unrealised gains on investments		462	766
Investment expenses and charges	6	(8,250)	(9,135)
Unrealised losses on investments		(1,087)	(1,835)
Allocated investment return transferred to general business technical account		(4,356)	(4,318)
Foreign exchange (losses)/gains		(5,282)	3,790
(Loss)/profit for the financial year		(45,365)	15,868

The notes on pages 16 to 33 form an integral part of these annual accounts.

Statement of other comprehensive income
Year ended 31 December 2017
Hiscox Syndicate 3624 annual accounts

	2017 £000	2016 £000
(Loss)/profit for the financial year	(45,365)	15,868
Currency translation adjustments	4,688	(3,739)
Total recognised (losses)/gains for the year	(40,677)	12,129

Balance sheet – assets
At 31 December 2017
Hiscox Syndicate 3624 annual accounts

	Notes	2017 £000	2016 £000
Investments			
Financial investments	9	390,011	382,970
Reinsurers' share of technical provisions			
Provision for unearned premium	10	55,832	107,931
Claims outstanding	10, 13	104,972	125,387
		160,804	233,318
Debtors			
Debtors arising out of direct insurance operations	11	82,323	143,588
Debtors arising out of reinsurance operations	12	40,232	19,842
Other debtors		1,660	1,266
		124,215	164,696
Other assets			
Cash at bank and in hand		76,346	76,694
Prepayments and accrued income			
Accrued interest		1,620	1,366
Deferred acquisition costs	10	94,090	123,513
Total assets		847,086	982,557

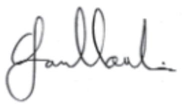
The notes on pages 16 to 33 form an integral part of these annual accounts.

Balance sheet – liabilities
At 31 December 2017
Hiscox Syndicate 3624 annual accounts

	Notes	2017 £000	2016 £000
Capital and reserves			
Member's balances		(73,474)	(15,616)
Technical provisions			
Provision for unearned premium	10	285,840	392,024
Claims outstanding	10, 13	573,862	535,770
		859,702	927,794
Creditors			
Creditors arising out of reinsurance operations	14	39,967	42,165
Other creditors		7,084	2,203
		47,051	44,368
Accruals and deferred income	15	13,807	26,011
Total liabilities		847,086	982,557

The notes on pages 16 to 33 form an integral part of these annual accounts.

The syndicate annual accounts on pages 2 to 15 were approved by the board of Hiscox Syndicates Limited on 16 March 2018 and were signed on its behalf by



I J Martin
Director

Statement of changes in member's balances
Year ended 31 December 2017
Hiscox Syndicate 3624 annual accounts

	2017 £000	2016 £000
Member's balances brought forward at 1 January	(15,616)	(12,318)
Total recognised (losses)/gains for the year	(40,677)	12,129
Payments of profit to member's personal reserve funds	(17,181)	(15,427)
Member's balances carried forward at 31 December	(73,474)	(15,616)

Members participate on Syndicates by reference to years of account 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.

Statement of cash flows
Year ended 31 December 2017
Hiscox Syndicate 3624 annual accounts

	2017 £000	2016 £000
Net cash flows from operating activities		
(Loss)/profit for the year	(45,365)	15,868
(Decrease)/increase in gross technical provisions	(68,092)	249,926
Decrease/(increase) in reinsurers' share of gross technical provisions	72,513	(64,102)
Decrease/(increase) in debtors	40,479	(43,631)
Increase in creditors	2,684	13,864
Movement in other assets/liabilities	17,412	(13,398)
Investment return	(4,356)	(4,318)
Net cash inflows from operating activities	15,275	154,209
Net cash flows from investing activities		
Purchase of debt instruments	(885,830)	(313,337)
Sale of debt instruments	869,088	205,983
Settlement of derivatives	322	696
Investment income received	14,045	5,387
Other movements on investments	2,144	(57,796)
Net cash flows from financing activities		
Distribution of profits	(17,181)	(15,427)
Foreign currency reserve movements	4,688	(3,739)
Net increase/(decrease) in cash and cash equivalents	2,551	(24,024)
Effect of exchange rates on cash and cash equivalents	(2,899)	12,406
Cash and cash equivalents at the beginning of the year	76,694	88,312
Cash and cash equivalents at the end of the year	76,346	76,694

Notes to the accounts
Year ended 31 December 2017
Hiscox Syndicate 3624
annual accounts

1 Basis of preparation
These annual accounts have been prepared in accordance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards in the United Kingdom, Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland (FRS 102), Insurance Contracts (FRS 103) where applicable and the Companies Act 2006.

These annual accounts are presented in Pound Sterling (GBP). The functional currency of the Syndicate is United States Dollars (USD). All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The Directors of the managing agent have prepared the annual accounts on the basis that the Syndicate will continue to write future business.

The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities.

2 Accounting policies
The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's annual accounts.

2(a) Premiums
Written gross and outwards reinsurance premiums comprise premiums on contracts incepting during the financial year. Written premiums are disclosed gross of commission payable to intermediaries and exclude taxes and duties levied on premiums.

Outwards reinsurance premiums are also disclosed gross of commissions and profit participations recoverable from reinsurers.

Premiums written include an estimate of gross premiums written during the year that have not yet been notified by the financial year end (pipeline premiums).

2(b) Unearned premiums
The provision for unearned premium comprises the proportion of gross and outwards reinsurance premiums written, which is estimated to be earned in the following or subsequent financial years, computed using the daily pro-rata method.

2(c) Acquisition costs
Acquisition costs comprise all direct and indirect costs arising from the acquisition of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which is unearned at the balance sheet date.

2(d) Claims
Claims incurred in respect of general business are charged to profit or loss as incurred, based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Syndicate. The Syndicate does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Syndicate and statistical analysis for the claims incurred but not reported, and an estimate of the expected ultimate cost of more complex claims that may be affected by external factors, for example, court decisions.

Claims paid are transactions in the period which have been signed through Lloyd's Central Accounting or Lloyd's Direct Reporting, the timing difference between cash paid and claims signed is held on the balance sheet as a debtor.

Reinsurers' share of claims paid are all transactions in the period which have been signed through London Outwards Reinsurance System adjusted to include an accrual for the balances which have been billed, but unsettled at the balance sheet date.

While the Directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the annual accounts for the period in which the adjustments are made. The methods used and estimates made are reviewed regularly.

The benefits to which the Syndicate is entitled under outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within assets) as well as longer-term receivables (classified within assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

2 Accounting policies continued

2(e) Unexpired risk
Provision is made for unexpired risks arising from general business where the expected value of the claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by classes of business which are managed together, after taking into account the relevant investment return.

2(f) Financial assets and liabilities including loans and receivables
i. Financial assets at fair value through profit and loss
   A financial asset is classified into this category at inception if it is managed and evaluated on a fair value basis in accordance with a documented strategy, if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking.

ii. Loans and receivables
   Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Receivables arising from insurance contracts are included in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Loans and receivables are carried at amortised cost less any provision for impairment in value.

   Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Syndicate reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the profit or loss account.

2(g) Investment return
All investment return is initially recognised in the non-technical account. It is then transferred to the technical account as it all relates to funds supporting underwriting business.

Realised gains or losses on investments represent the difference between net sales proceeds and their purchase price.

Unrealised gains and losses on investments represent the difference between the fair value of investments at the balance sheet date and their purchase price or their valuation at the commencement of the year. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

2(h) Foreign currencies
The functional currency of the Syndicate is US Dollars. Assets, liabilities, revenues and costs denominated are translated into the functional currency using the exchange rates prevailing at the date of the transaction. At the balance sheet date, monetary assets and liabilities are translated to functional currency at the year-end rates of exchange. For the purpose of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on the translation of foreign currency amounts relating to insurance operations of the Syndicate are included within profit/(loss) on foreign exchange in the non-technical account.

The results and financial position are presented in Pound Sterling rather than the functional currency of US Dollars. The translation from functional currency to presentational currency is completed as follows:
- all assets and liabilities are translated from the functional currency amount, at the closing rate at the balance sheet date;
- all income and expenses are translated at average exchange rate; and
- all resulting exchange differences are recognised separately as a foreign exchange reserve within capital and reserves.

2(i) Taxation
Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

2(j) Impairment of assets
An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

2 Accounting policies continued

For financial assets, the amount of the impairment 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately. Impairment losses recognised in respect of goodwill are not subsequently reversed.

2(k) Bad debts

Bad debts are provided for only where specific information is available to suggest a debtor may be unable or unwilling to settle its debt to the Syndicate. The provision is calculated on a case-by-case basis.

2(l) Reinsurers' commissions and profit participations

Reinsurers' commissions and profit participations, which include reinsurance profit commission and overriders, are treated as a contribution to expenses.

2(m) Derivative financial instruments

Derivative financial instruments are measured at initial recognition, and subsequently at fair value, with changes recognised in profit and loss. Transaction costs incurred in buying and selling derivative financial instruments are recognised in profit or loss when incurred. When derivatives are liabilities they are reported with other creditors in the balance sheet.

2(n) Cash at bank and in hand

This consists of cash at bank and in hand and deposits held at call with banks.

3 Judgements and key sources of estimation uncertainty

In the application of the accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses during the year. The following judgements, estimations and assumptions have had the most significant effect on amounts recognised in the annual accounts.

3(a) Valuation of general insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. The carrying amount of the liability is disclosed in the technical provisions note. For general insurance contracts estimates are made for the expected ultimate cost of claims notified at the balance sheet date and the cost of claims incurred but not yet reported. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided. The estimation of these claims is based on historical experience projected forward. The Syndicate's estimate of claims and expenses is mainly achieved through the application of a number of commonly accepted actuarial projection methodologies based on the following:

- the development of previously paid claims, where payments to date are extrapolated for each prior year;
- the development of claims based on seasonally adjusted exposure curves;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

The claims provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from the Syndicate's reinsurance arrangements including excess of loss and quota share contracts, having due regard for collectability.

Claims provisions are subject to regular review, both within the Syndicate and externally. Management discuss and challenge the actuarial best estimate and booked claims provisions at the quarterly Reserving Committee, whose membership includes Directors with significant insurance experience and actuarial specialism. External actuaries are also engaged to calculate an independent best estimate of the ultimate cost of claims at 31 December annually and present a Statement of Actuarial Opinion (SAO) against which the Syndicate's best estimate is assessed.

3(b) Premium recognition

Gross written premium includes an estimation for pipeline premiums. Pipeline premium is calculated for each underwriting year of account and is the difference between the written premium expected by the active underwriter less notified premiums at the balance sheet date. Written premium is based on prior year experience and current year business volume.

3(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. HSL uses judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. See note 4 for discussion of the related risks.

4 Management of risk

The Syndicate's overall appetite for accepting and managing varying classes of risk is defined by the HSL Board. The HSL Board has developed a governance framework and has set risk management policies and procedures which include risk identification, risk management and mitigation and risk reporting. The objective of these policies and procedures is to protect the Syndicate's members, policyholders and other stakeholders from negative events that could hinder the Syndicate's delivery of its contractual obligations and its achievement of sustainable profitable economic and social performance.

The HSL Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the HSL Risk Committee. Ongoing compliance therewith, through an internal audit function, shared with other Hiscox Ltd subsidiaries, which has operational independence, a charter and clear upwards reporting structures back into the HSL Audit Committee and HSL Board. The Syndicate, in common with the non-life insurance industry generally, is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity. The Syndicate's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is reasonably predictable.

In addition, the majority of material cash outflows are typically triggered by the occurrence of insured events non-correlated to financial markets, and not by the inclination or will of policyholders.

The principal sources of risk relevant to the Syndicate's operations and its annual accounts fall into two broad categories: insurance risk and financial risk, both of which are described below.

Insurance risk

The predominant risk to which the Syndicate is exposed is insurance risk which is assumed through the underwriting process. Insurance risk can be subcategorised into (i) underwriting risk including the risk of catastrophe and systemic insurance losses and the insurance cycle and competition, and (ii) reserving risk.

(i) Underwriting risk

Underwriting risk is defined as the risk that insurance premiums will not be sufficient to cover future insurance losses and associated expenses. Underwriting risk also encompasses people, process and system risks directly related to underwriting.

The HSL Board sets the Syndicate's underwriting strategy and risk appetite, seeking to exploit identified opportunities in light of other relevant anticipated market conditions.

Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures and line of business diversification parameters are prepared and reviewed by the HSL management team in order to translate the HSL Board's summarised underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved in advance of each underwriting year. The HSL Board continually reviews its underwriting strategy throughout each underwriting year in light of evolving market pricing, loss conditions and as opportunities present themselves.

The Syndicate's underwriters and HSL consider underwriting risk at an individual contract level, and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors. To assist with the process of pricing and managing underwriting risk the Syndicate routinely performs a wide range of activities including the following:
- regularly updating the Syndicate's risk models;
- documenting, monitoring and reporting against the Syndicate's strategy to manage risk;
- developing systems that facilitate the identification of emerging issues promptly;
- utilising sophisticated computer modeling tools to simulate catastrophes and measure the resultant potential losses before and after reinsurance;
- monitoring legal developments and amending the wording of policies when necessary;
- regular monitoring of risk exposures across individual underwriting portfolios and known accumulations of risk;
- examining the aggregated exposures in advance of underwriting further large risks; and
- developing processes that continually factor market intelligence into the pricing process.

The delegation of underwriting authority to specific individuals, both internally and externally, is subject to regular reviews. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover areas such as maximum sums insured per insurance contract, maximum gross premiums written and maximum aggregated exposures per geographical zone and risk class. All delegations are strictly controlled through these underwriting guidelines and limits and extensive monitoring, review and auditing of the agencies.

The Syndicate compiles estimates of losses arising from realistic disaster events using statistical models alongside input from its underwriters. They also reflect the areas that represent significant exposures for the Syndicate. The events are extreme and as yet untested, and

4 Management of risk continued

as such estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodeled risks. This means that should a realistic disaster actually occur, the Syndicate's final ultimate losses could materially differ from those estimates modeled by management.

The Syndicate's insurance contracts include provisions to contain losses, such as the ability to impose deductibles and demand reinstatement premiums in certain cases. In addition, in order to manage the Syndicate's exposure to repeated catastrophic events, relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period.

The Syndicate also manages underwriting risk by purchasing reinsurance. Reinsurance protection, such as excess of loss cover, is purchased to mitigate the effect of catastrophes and unexpected concentrations of risk. The scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market.

The specific insurance risks accepted by the Syndicate fall broadly into the following main categories: property and casualty. These specific categories are defined for risk review purposes only, as each contains risks specific to the nature of the cover provided. The following describes the policies and procedures used to identify and measure the risks associated with each individual category of business.

Property risks

The Syndicate directly underwrites a diverse range of property risks.

Property contracts cover fixed and moveable assets such as ships and other vessels, cargo in transit, energy platforms and installations, pipelines, satellites, commercial buildings, industrial plants and machinery. These assets are typically exposed to natural catastrophe, large loss events or attritional claims arising from conventional hazards such as collision, flooding, fire and theft.

For this reason the Syndicate accepts major property insurance risks for periods of mainly one year so that each contract can be repriced on renewal to reflect the continually evolving risk profile. Certain specialist lines such as warranty which can typically have policy periods of between three and seven years.

Casualty risks

The casualty underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of potential hazard, industry and geography. Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence and specific losses suffered as a result of electronic or technological failure of software products and websites.

The Syndicate's pricing strategy for casualty insurance policies is typically based upon historical claim frequencies and severities, adjusted for inflation and extrapolated forwards to incorporate projected changes in claims patterns.

(ii) Reserving risk

Reserving risk is defined as the risk that reserves set in respect of insurance claim losses are ultimately insufficient to fully settle these claims and associated expenses. This definition also applies to reserves which have been set previously. The Syndicate's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 3(a).

The Syndicate's provision estimates are subject to regular and rigorous review by senior management from all areas of the business including independent actuaries. The final provision is approved by the recommendation of the reserving committee. The provisions we make are set above the actuarial mid-point to reduce the risk that actual claims exceed the amount that has been set aside.

Property insurance contracts can take longer than normal to settle. This is because of the length of time required for detailed subsea surveys to be carried out and damage assessments agreed together with difficulties in predicting when the assets can be brought back into full production.

Casualty insurance claims may not be established for a number of years after the event where legal complexities occasionally develop regarding the insured's alleged omission or negligence. The length of time required to obtain definitive legal judgements and make eventual settlements exposes the Syndicate to a degree of reserving risk in an inflationary environment.

Financial risk

The Syndicate is exposed to financial risk through its ownership of financial instruments including financial liabilities. The Syndicate invests in financial assets in order to fund obligations arising from its insurance contracts and other liabilities.

The key financial risk for the Syndicate is that the proceeds from its financial assets and investment result generated thereon are not sufficient to fund the obligations. The most important variables that could result in such an outcome relate to the interest rate risk, credit risk, liquidity risk and currency risk.

4 Management of risk continued

The Syndicate's policies and procedures for managing exposure to these specific categories of risk are detailed below.

(a) Reliability of fair values

The Syndicate has elected to carry all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy. All of the financial investments held by the Syndicate are available to trade in markets and the Syndicate therefore seeks to determine fair value by reference to published prices or as derived by pricing vendors using observable quotations in the most active financial markets in which the assets trade. The fair value of financial assets is measured primarily with reference to their closing bid-market prices at the balance sheet date. The ability to obtain quoted bid market prices may be reduced in periods of diminished liquidity. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Syndicate. In such instances fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers and prices achieved in the most recent regular transaction of identical or closely related instruments occurring before the balance sheet date but updated for relevant perceived changes in market conditions.

At 31 December 2017 and 2016, the Syndicate held asset backed and mortgage backed fixed income instruments in its investment portfolio. Together with the Syndicate's investment managers, management continues to monitor the potential for any adverse development associated with this investment exposure through the analysis of relevant factors such as credit ratings, collateral, subordination levels and default rates in relation to the securities held.

The Syndicate did not experience any material defaults on debt securities during the year.

Valuation of these securities will continue to be impacted by external market factors including default rates, rating agency actions, and liquidity. The Syndicate will make adjustments to the investment portfolio as appropriate as part of its overall portfolio strategy, but its ability to mitigate its risk by selling or hedging its exposures may be limited by the market environment. The Syndicate's future results may be impacted, both positively and negatively, by the valuation adjustments applied to these securities.

(b) Interest rate risk

Fixed income investments represent a significant proportion of the Syndicate's assets and the HSL Board continually monitors investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Syndicate is able to underwrite or its ability to settle claims as they fall due. The fair value of the Syndicate's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. If market interest rates rise, the fair value of the Syndicate's debt and fixed income investments would tend to fall and vice versa if credit spreads remained constant.

The Syndicate may also, from time to time, enter into interest rate future contracts in order to minimise the interest rate risk.

The fair value of debt and fixed income assets in the Syndicate's balance sheet at 31 December is analysed below:

Table a)	31 December 2017 % weighting	31 December 2016 % weighting
Government issued bonds and instruments	35	27
Government supported*	8	11
Asset backed securities	7	7
Mortgage backed instruments – agency	–	1
Mortgage backed securities – non agency	2	4
Corporate bonds	48	50

* Includes supranational debt and agency debt.

4 Management of risk continued

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates at the reporting date. An increase of 50 basis points in interest yields would result in a charge to members balances of £2.9 million (2016: 2.9 million).

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

(c) Credit risk

The Syndicate has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in solvency or be unable to pay amounts in full when due.

The concentrations of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Syndicate interacts with a number of counterparties who are engaged in similar activities with similar customer profiles, and often in the same geographical areas and industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of a significant number of counterparties to meet the Syndicate's agreed contractual terms and conditions.

Key areas of exposure to credit risk include:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- counterparty risk with respect to cash and cash equivalents, and investments and other deposits including deposits and derivative transactions.

The Syndicate's maximum exposure to credit risk is represented by the carrying values of monetary assets and reinsurance assets included in the balance sheet at any given point in time. The Syndicate does not use credit derivatives or other products to mitigate maximum credit risk exposures on reinsurance assets, but collateral may be requested to be held against these assets. The Syndicate structures the levels of credit risk accepted by placing limits on their exposure to a single counterparty, or groups of counterparties, and having regard to geographical locations. Such risks are subject to an annual or more frequent review. There is no significant concentration of credit risk with respect to loans and receivables, as the Syndicate has a large number of internationally dispersed debtors with unrelated operations. Reinsurance is used to contain insurance risk. This does not, however, discharge the Syndicate's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year.

The HSL Board assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance as well as detailed analysis from a dedicated in-house security consultant. The financial analysis of reinsurers produces an assessment categorised by S&P's rating (or equivalent when not available from S&P).

Despite the rigorous nature of this assessment exercise, and the resultant restricted range of reinsurance counterparties with acceptable strength and credit credentials that emerges therefrom, some degree of credit risk concentration remains inevitable.

The HSL Board considers the reputation of its reinsurance partners and also receives details of recent payment history and the status of any on-going negotiations between other Hiscox entities and these third parties. This information is used to update the reinsurance purchasing strategy. Individual operating units maintain records of the payment history for significant brokers and contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset, where counterparties are both debtors and creditors of the Syndicate, and obtaining collateral from unrated counterparties. Management information reports detail provisions for impairment on loans and receivables and subsequent write-off. Exposures to individual intermediaries and groups of intermediaries are collected within the on-going monitoring of the controls associated with regulatory solvency.

4 Management of risk continued

The Syndicate also mitigates counterparty credit risk by concentrating debt and fixed income investments in high-quality instruments, including a particular emphasis on government bonds.

An analysis of the Syndicate's major exposures to counterparty credit risk excluding direct policyholder debtors, based on S&P or equivalent rating at 31 December, is presented in the table below:

Table b) At 31 December 2017	AAA £000	AA £000	A £000	BBB and below £000	Total £000
Financial investments	71,228	149,800	103,681	65,302	390,011
Reinsurers' share of technical provisions:					
claims outstanding	–	35,773	69,199	–	104,972
Debtors: reinsurance recoverables	–	1,234	13,224	–	14,457
Cash at bank and in hand	–	17,652	58,694	–	76,346
Total	71,228	204,459	244,798	65,302	585,786

At 31 December 2016	AAA £000	AA £000	A £000	BBB and below £000	Total £000
Financial investments	63,889	200,262	80,464	38,355	382,970
Reinsurers' share of technical provisions:					
claims outstanding	–	33,973	86,751	4,663	125,387
Debtors: reinsurance recoverables	–	742	18,961	139	19,842
Cash at bank and in hand	–	12,617	64,077	–	76,694
Total	63,889	247,594	250,253	43,157	604,893

Within the financial investments, which include debt securities, deposits with credit institutions and cash equivalent assets, there are exposures to a range of government borrowers, on either a direct or guaranteed basis, and banking institutions. The Syndicate, together with its investment managers, closely manages its geographical exposures across government issued and supported debt.

At 31 December 2017 and 2016 the Syndicate held no material debt or fixed income assets that were past due or impaired beyond their reported fair values. For the current period and prior period, the Syndicate did not experience any material defaults on debt securities.

(d) Liquidity risk

The Syndicate is exposed to daily calls on its available cash resources, mainly from claims arising from insurance and reinsurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Limits on the minimum level of cash and maturing funds available to meet such calls are set to cover unexpected levels of claims and other cash demands.
A significant proportion of the Syndicate's investments is in highly liquid assets which could be converted to cash in a prompt fashion and at minimal expense. The deposits with credit institutions largely comprise short-dated certificates for which an active market exists and which the Syndicate can easily access.

4 Management of risk continued

The main focus of the investment portfolio is on high-quality short-duration debt and fixed income securities, and cash. There are no significant holdings of investments with specific repricing dates. Notwithstanding the regular interest receipts and also the Syndicate's ability to liquidate these securities and the majority of its other financial instrument assets for cash in a prompt and reasonable manner, the contractual maturity profile of the financial assets and financial liabilities at 31 December was as follows:

Table c)

At 31 December 2017	Less than one year £000	Between one and three years £000	Between three and five years £000	Over five years £000	Total £000
Investments	22,005	307,414	38,157	22,435	390,011
Reinsurers' share of technical provisions	42,708	40,232	13,183	8,849	104,972
Debtors	106,533	17,682	–	–	124,215
Cash at bank and in hand	76,346	–	–	–	76,346
Prepayments and accrued income	1,620	–	–	–	1,620
Technical provisions	(233,475)	(219,940)	(72,071)	(48,376)	(573,862)
Creditors	(39,541)	(7,510)	–	–	(47,051)
Total	(23,804)	137,878	(20,731)	(17,092)	76,251

At 31 December 2016	Less than one year £000	Between one and three years £000	Between three and five years £000	Over five years £000	Total £000
Investments	61,991	293,374	4,528	23,077	382,970
Reinsurers' share of technical provisions	38,053	42,674	25,181	19,479	125,387
Debtors	140,466	23,165	1,065	–	164,696
Cash at bank and in hand	76,694	–	–	–	76,694
Prepayments and accrued income	1,366	–	–	–	1,366
Technical provisions	(162,598)	(182,343)	(107,597)	(83,232)	(535,770)
Creditors	(28,035)	(9,283)	(2,339)	(4,711)	(44,368)
Total	127,937	167,587	(79,162)	(45,387)	170,975

The available headroom of working capital is monitored through the use of a detailed Syndicate cash flow forecast which is reviewed by management monthly or more frequently as required.

Average contractual maturity analysed by denominated currency of investments was as follows:

Table d)	2017 years	2016 years
Pound Sterling	1.2	3.2
US Dollar	2.8	2.3
Euro	–	–
Canadian Dollar	1.5	1.7

(e) Currency risk

The majority of the Syndicate's gross written premium is in US Dollars, consequently movements in the Pound Sterling against US Dollar exchange rate may have a material effect on its financial performance and position. The Syndicate's financial assets are denominated in the same currencies as its insurance liabilities, in order to reduce currency exchange volatility from the balance sheet. This profit and loss is distributed in accordance with Lloyd's rules using a combination of Pound Sterling and US Dollars.

4 Management of risk continued

The currency profile of the Syndicate's financial assets and financial liabilities is as follows:

Table e) At 31 December 2017	Pound Sterling £000	US Dollar £000	Euro £000	Canadian Dollar £000	Total £000
Financial investments	11,032	354,594	–	24,385	390,011
Reinsurers' share of technical provisions	17,278	127,705	14,157	1,664	160,804
Debtors	4,957	108,112	7,468	3,678	124,215
Cash in hand and at bank	12,011	49,261	10,030	5,044	76,346
Other assets	12,749	74,728	5,657	2,576	95,710
Total assets	58,027	714,400	37,312	37,347	847,086
Technical provisions	(78,092)	(695,420)	(75,362)	(10,828)	(859,702)
Creditors	(8,539)	(35,671)	(772)	(2,069)	(47,051)
Other creditors	(7,295)	(4,302)	(2,016)	(194)	(13,807)
Total liabilities	(93,926)	(735,393)	(78,150)	(13,091)	(920,560)
Member's balances by currency	(35,899)	(20,993)	(40,838)	24,256	(73,474)

At 31 December 2016	Pound Sterling £000	US Dollar £000	Euro £000	Canadian Dollar £000	Total £000
Financial investments	13,053	348,072	–	21,845	382,970
Reinsurers' share of technical provisions	26,375	181,056	17,971	7,916	233,318
Debtors	16,304	123,939	17,397	7,056	164,696
Cash in hand and at bank	20,840	41,408	13,811	635	76,694
Other assets	–	89,979	34,900	–	124,879
Total assets	76,572	784,454	84,079	37,452	982,557
Technical provisions	(102,554)	(727,870)	(76,953)	(20,417)	(927,794)
Creditors	(714)	(39,278)	(3,215)	(1,161)	(44,368)
Other creditors	(5,709)	(16,938)	(1,726)	(1,638)	(26,011)
Total liabilities	(108,977)	(784,086)	(81,894)	(23,216)	(998,173)
Member's balances by currency	(32,405)	368	2,185	14,236	(15,616)

Sensitivity analysis

The Syndicate performs sensitivity analysis based on a 10% strengthening of Pound Sterling against the US Dollar, Euro and Canadian Dollar. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. During the year, the Syndicate transacted in a number of over-the-counter forward currency derivative contracts. The impact of these contracts on the sensitivity analysis is negligible. A 10% strengthening of the Pound Sterling against the following currencies at 31 December would have increased/(decreased) members' balances for the financial year by the amounts shown below:

Table f)	2017 £000	2016 £000
US Dollar	2,099	(37)
Euro	4,084	(218)
Canadian Dollar	(2,426)	(1,424)

Regulatory issues

The Syndicate is required to comply with the requirements of the Prudential Regulation Authority, Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. HSL devotes considerable resources to meet its regulatory obligations, including compliance, risk management and internal audit functions.

4 Management of risk continued

Operational risk

Operational risk is the risk of loss from people, processes or systems or external events with origins outside the scope of other risk categories. HSL actively monitors and controls its operational risks. Examples of key operational risks for the Syndicate include IT performance and stability, staff exit rate and the delivery of major projects.

HSL recognise that the ability to continue operations in the event of a business interruption, whether from a major disaster or minor incident, is a fundamental factor in meeting the expectations of our customers and internal and external stakeholders. Both the Syndicate and Lloyd's have a formal disaster recovery plan which, in the event of an incident, will support alternative accommodation strategies. All IT systems are assessed for recovery time objectives and investment has been made into remote working technology providing access to corporate systems away from the office and ensuring that this technology is well used and familiar to staff.

5 Segmental analysis

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

2017	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance						
Accident and health	7,133	7,425	(6,852)	(2,919)	–	(2,346)
Motor – third-party liability	1,540	3,452	(2,726)	(829)	(198)	(301)
Motor – other classes	9,243	20,709	(16,355)	(4,975)	(1,184)	(1,805)
Marine aviation and transport	36,059	68,379	(51,046)	(18,429)	(4,840)	(5,936)
Fire and other damage to property	31,693	47,852	(57,683)	(11,787)	6,048	(15,570)
Third-party liability	247,069	236,243	(145,080)	(91,092)	828	899
Miscellaneous	52,174	87,392	(79,376)	(22,430)	(2,216)	(16,630)
	384,911	471,452	(359,118)	(152,461)	(1,562)	(41,689)
Reinsurance	23,884	22,862	(16,975)	(8,193)	(444)	(2,750)
Total	408,795	494,314	(376,093)	(160,654)	(2,006)	(44,439)

2016	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance						
Accident and health	8,183	7,886	(4,650)	(2,743)	–	493
Motor – third-party liability	4,786	4,009	(3,203)	(1,203)	13	(384)
Motor – other classes	28,718	24,056	(19,219)	(7,218)	79	(2,302)
Marine aviation and transport	93,020	85,950	(73,767)	(24,635)	1,248	(11,204)
Fire and other damage to property	60,360	52,359	(32,801)	(15,115)	(6,461)	(2,018)
Third-party liability	210,103	196,414	(90,028)	(74,629)	863	32,620
Miscellaneous	109,604	90,739	(71,719)	(28,387)	(202)	(9,569)
	514,774	461,413	(295,387)	(153,930)	(4,460)	7,636
Reinsurance	18,697	16,920	(11,027)	(5,769)	–	124
Total	533,471	478,333	(306,414)	(159,699)	(4,460)	7,760

All premiums were concluded in the UK.

The geographical analysis of gross premiums earned by destination, as a proxy for risk location, is as follows:

	2017 £000	2016 £000
United Kingdom	22,378	11,231
Other European Union member states	25,792	16,252
United States	405,337	341,758
Other	40,807	109,092
Total	494,314	478,333

6 Investment return

	2017 £000	2016 £000
Investment income		
Interest income on financial assets	6,800	4,744
Gains on realisation of investments	6,431	9,778
Total investment income	13,231	14,522
Investment expenses and charges		
Investment management expenses	(401)	(279)
Losses on realisation of investments	(7,849)	(8,856)
Total investment expenses and charges	(8,250)	(9,135)

The tables below present the average amounts of funds in the year per currency and the average investment return yields in the year.

	2017 £000	2016 £000
Average amount of Syndicate funds available for investment during the year		
Pound Sterling	26,152	18,614
Euro	13,533	11,722
US Dollar	382,353	329,666
Canadian Dollar	24,615	16,581
Total Syndicate funds available for investment	446,653	376,583

	2017 %	2016 %
Annual investment yield		
Pound Sterling	1.0	0.6
Euro	–	–
US Dollar	1.1	1.2
Canadian Dollar	0.5	1.0
Total annual investment yield percentage	1.0	1.1

Syndicate funds include investments and cash.

7 Net operating expenses

	2017 £000	2016 £000
Brokerage and commissions	139,646	168,536
Other acquisition costs	7,309	7,078
Change in deferred acquisition costs	22,741	(15,082)
Administrative expenses	11,466	11,175
Member’s standard personal expenses	3,356	4,054
Reinsurers’ commissions and profit participations	(23,864)	(16,062)
Total	160,654	159,699

Brokerage and commissions on direct business written was £132.3 million (2016: £163.4 million).
Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT).

	2017 £000	2016 £000
Auditor’s remuneration		
Fees payable to the Syndicate’s auditors for the audit of these annual accounts	111	91
Fees payable to the Syndicate’s auditors and its associates in respect of other services pursuant to legislation	36	36
Total	147	127

8 Staff costs

The Syndicate and its managing agent have no employees. Staff are employed by Hiscox Underwriting Group Services Limited (HUGS).

The Syndicate did not directly incur staff costs during the year (2016: nil). The following salary and related costs were recharged during the year.

	2017 £000	2016 £000
Wages and salaries	7,532	7,269
Social security costs and other pension costs	1,106	1,067
Total	8,638	8,336

The Directors of Hiscox Syndicates Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2017 £000	2016 £000
Directors' emoluments	262	247

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

	2017 £000	2016 £000
Underwriter's emoluments	65	65

9 Financial investments

	2017 Fair value £000	2017 Cost £000	2016 Fair value £000	2016 Cost £000
Debt securities and other fixed income securities	390,002	391,422	382,680	337,967
Derivative financial assets	9	–	290	–
Derivative financial liabilities	(63)	–	(4)	–

All financial investments in the current and prior financial year were carried at fair value through profit or loss. No financial assets in the current or prior financial year were classified as 'held for trading' under FRS 102.

Other financial assets under FRS 102 are cash at bank and in hand, direct insurance and reinsurance debtors, other debtors and accrued income, which are classified as loans and receivables.

Fair value hierarchy

The Syndicate has classified its financial investments using the fair value hierarchy in accordance with the FRS 102 amendments on 'Fair value hierarchy disclosures' issued by the Financial Reporting Council on 8 March 2016.

The levels within the fair value hierarchy are defined as follows:

- level 1 – the unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date;
- level 2 – inputs other than quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly;
- level 3 – inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

9 Financial investments continued

2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt securities and other fixed income securities	110,559	279,443	–	390,002
Derivative financial assets	–	9	–	9
Derivative financial liabilities	–	(63)	–	(63)

2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt securities and other fixed income securities	160,106	222,574	–	382,680
Derivative financial assets	–	290	–	290
Derivative financial liabilities	–	(4)	–	(4)

The Syndicate measures the fair value of its financial assets based on prices provided by custodians who obtain market data from numerous independent pricing services. The pricing services used by the custodian obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing service uses common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

2017	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position asset/(liability) £000
Foreign exchange forward contracts	594	4	(63)	(59)
Interest rate future contracts	10,878	5	–	5
Total	11,472	9	(63)	(54)

2016	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position asset/(liability) £000
Foreign exchange forward contracts	10,838	290	(4)	286

Foreign exchange forwards

During 2017 and 2016, the Syndicate entered into a series of conventional forward contracts in order to avoid exchange volatility on Pound Sterling and Euro denominated monetary assets. The contracts required the Syndicate to forward sell a fixed amount of Pound Sterling and Euros for US Dollars at pre-agreed exchange rates.

The investment return in 2017 on these foreign exchange forwards is disclosed in note 6.

10 Technical provisions

2017	Gross provisions £000	Reinsurance assets £000	Net £000
Claims incurred:			
Balance at 1 January	535,770	(125,387)	410,383
Over-provision in respect of prior claims and claim adjustment expenses	(5,977)	(883)	(6,860)
Expected cost of current year claims	382,070	(80,442)	301,628
Claims paid for claims settled in year	(301,424)	93,748	(207,676)
Effect of movements in exchange rates	(36,577)	7,992	(28,585)
Balance at 31 December	573,862	(104,972)	468,890
Unearned premiums:			
Balance at 1 January	392,024	(107,931)	284,093
Premium written during the year	408,795	(35,689)	373,106
Premium earned during the year	(494,314)	83,331	(410,983)
Effect of movements in exchange rates	(20,665)	4,457	(16,208)
Balance at 31 December	285,840	(55,832)	230,008
Deferred acquisition costs:			
Balance at 1 January	123,513	(26,011)	97,502
Acquisition costs written	139,646	(12,765)	126,881
Acquisition costs earned	(162,277)	23,864	(138,413)
Effect of movements in exchange rates	(6,792)	1,458	(5,334)
Balance at 31 December	94,090	(13,454)	80,636

2016	Gross provisions £000	Reinsurance assets £000	Net £000
Claims incurred:			
Balance at 1 January	393,088	(99,307)	293,781
Over-provision in respect of prior claims and claim adjustment expenses	(16,973)	(77)	(17,050)
Expected cost of current year claims	323,387	(92,090)	231,297
Claims paid for claims settled in year	(231,829)	83,865	(147,964)
Effect of movements in exchange rates	68,097	(17,778)	50,319
Balance at 31 December	535,770	(125,387)	410,383
Unearned premiums:			
Balance at 1 January	284,780	(69,908)	214,872
Premium written during the year	533,471	(121,629)	411,842
Premium earned during the year	(478,333)	96,627	(381,706)
Effect of movements in exchange rates	52,106	(13,021)	39,085
Balance at 31 December	392,024	(107,931)	284,093
Deferred acquisition costs:			
Balance at 1 January	92,219	(8,005)	84,214
Acquisition costs written	168,536	(31,335)	137,201
Acquisition costs earned	(153,454)	16,062	(137,392)
Effect of movements in exchange rates	16,212	(2,733)	13,479
Balance at 31 December	123,513	(26,011)	97,502

11 Debtors arising out of direct insurance operations

	2017 £000	2016 £000
Amounts due from intermediaries		
Due within one year	66,336	122,690
Due after one year	15,987	20,898
	82,323	143,588

12 Debtors arising out of reinsurance operations

	2017 £000	2016 £000
Amounts due from intermediaries		
Reinsurance recoverable (due within one year)	24,080	19,842
Ceding insurers under reinsurance business (due within one year)	14,457	–
Ceding insurers under reinsurance business (due after one year)	1,695	–
Amounts due from intermediaries	40,232	19,842

13 Claims development tables

The claims development tables below have been calculated by converting estimated claims and cumulative payments in Canadian Dollars, US Dollars and Euros to Pound Sterling at the closing rate of exchange at 31 December 2017. The table is produced on a year of account basis. Some business is not off risk after the first 12 months, therefore we would anticipate cumulative claims to increase in the second year as this business is earned.

Pure underwriting year Gross of reinsurance	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000
Estimate of cumulative claims:							
At end of underwriting year one	62,750	96,936	74,676	107,188	118,606	154,359	140,574
One year later	148,714	177,829	172,433	206,460	266,038	367,353	
Two years later	151,326	190,896	173,325	215,038	258,537		
Three years later	141,114	187,821	182,694	225,890			
Four years later	138,318	181,561	187,425				
Five years later	132,121	173,248					
Six years later	138,682						
Cumulative payments	(116,781)	(149,861)	(156,363)	(176,495)	(178,990)	(154,607)	(7,214)
Estimated balance to pay	21,901	23,387	31,062	49,395	79,547	212,746	133,360
Provision in respect of prior years							22,464
Total gross provision included in the balance sheet							573,862

Net of reinsurance	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000
Estimate of cumulative claims:							
At end of underwriting year one	54,538	67,602	65,052	74,221	91,643	121,154	120,233
One year later	130,278	139,192	154,760	146,119	197,869	280,530	
Two years later	133,860	145,704	153,221	141,770	190,325		
Three years later	121,136	140,984	154,498	146,581			
Four years later	116,022	135,864	156,333				
Five years later	110,950	132,752					
Six years later	117,376						
Cumulative payments	(99,586)	(113,763)	(133,841)	(111,650)	(120,058)	(107,945)	(6,103)
Estimated balance to pay	17,790	18,989	22,492	34,931	70,267	172,585	114,130
Provision in respect of prior years							17,706
Total net provision included in the balance sheet							468,890

14 Creditors arising out of reinsurance operations

	2017 £000	2016 £000
Amounts due to intermediaries		
Due within one year	32,457	29,200
Due after one year	7,510	12,965
	39,967	42,165

15 Accruals and deferred income

	2017 £000	2016 £000
Deferred reinsurance commission	13,454	26,011
Accrued expenses	353	–
	13,807	26,011

The balance above relates to deferred reinsurers' commission.

16 Related parties

Related companies

Hiscox Syndicates Limited (HSL) manages Syndicate 3624 as well as Syndicate 33 and Syndicate 6104. Syndicate 33 provides some reinsurance to Syndicate 3624 on an arm's-length basis.

HSL is a wholly-owned indirect subsidiary of Hiscox Ltd which is incorporated in Bermuda and listed on the London Stock Exchange .

Hiscox Dedicated Corporate Member Limited, a wholly-owned indirect subsidiary of Hiscox Ltd, is a corporate member within the Hiscox Group which owns the entire capacity of all pure underwriting years of Syndicate 3624.

Hiscox Underwriting Group Services Limited, a wholly-owned indirect subsidiary of Hiscox Ltd, is an employment service company which employs all UK-based staff engaged in Syndicate 3624 activities including underwriters, claims handlers, reinsurance staff and administrative staff. Hiscox Underwriting Group Services Limited charges a fee for the provision of these staff to Syndicate 3624 on a no profit/no loss basis.

Hiscox Insurance Company (Bermuda) Limited, a wholly-owned direct subsidiary of Hiscox Ltd, is a Class 4 insurer in Bermuda authorised by the Bermuda Monetary Authority. It supplies some risk modeling services to HSL. Syndicate 3624 purchases some reinsurance from Hiscox Insurance Company (Bermuda) Limited; such reinsurances are on an arm's-length basis.

Hiscox Insurance Company (Guernsey) Limited, a wholly-owned direct subsidiary of Hiscox Ltd, is a non-life insurance company authorised by the Guernsey Financial Services Commission which predominantly underwrites specialist personal lines business worldwide. It purchases some reinsurance from Syndicate 3624; such reinsurances are on an arm's-length basis.

Hiscox Underwriting Ltd, a wholly-owned indirect subsidiary of Hiscox Ltd, is an FCA authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 3624. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Underwriting Ltd.

Hiscox Inc, a wholly owned indirect subsidiary of Hiscox Ltd, is US authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 3624. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Inc.

Hiscox Europe Underwriting Limited, a wholly-owned indirect subsidiary of Hiscox Ltd, is an FCA authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 3624. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Europe Underwriting Limited.

16 Related parties continued

Hiscox MGA Ltd, a wholly-owned indirect subsidiary of Hiscox Ltd, is an FCA authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 3624. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox MGA Ltd.

Hiscox Ltd indirectly owns a 35.4% holding in Media Insurance Brokers International Limited, the holding company of an FCA authorised non-life insurance intermediary Media Insurance Brokers Limited which currently places business with various carriers, including Syndicate 3624. Media Insurance Brokers Limited is not obliged to place business with any particular carrier and these arrangements are subject to review from time to time by Media Insurance Brokers Limited.

Hiscox Ltd indirectly owns a 29.81% holding in White Oak Underwriting Agency Limited, an FCA authorised non-life insurance intermediary, which currently places business with Syndicate 3624. White Oak Underwriting Agency Limited is not obliged to place business with any particular carrier and these arrangements are subject to review from time to time by White Oak Underwriting Agency Limited.

Underwriting divisions

Hiscox Ltd and its subsidiaries organises its core underwriting activities into a number of underwriting divisions. Some of these divisions underwrite for multiple entities which are partly or wholly owned by Hiscox Ltd including Syndicate 3624, and some also underwrite for entities not partly nor wholly owned by Hiscox Ltd. This integrated approach is aimed at maximising business opportunities by using combined knowledge to develop new products and markets. There are certain predetermined mechanisms for allocating certain types of insurance risks to these carriers which take into account the licences, capacity at Lloyd's, available capital, business plans and reinsurance programmes of each carrier. These arrangements are structured to take full and proper account of the duties owed to the members of Syndicate 3624 and to manage appropriately any potential conflicts of interest.

The following balance sheet amounts were outstanding at year-end with related parties:

Balance sheet net assets and (liabilities) outstanding	2017 £000	2016 £000
Other HSL managed Syndicates	74	(818)
Hiscox Ltd subsidiaries (intermediary services)	35,060	42,155
Hiscox Ltd subsidiaries (insurance)	(3,121)	3,765
Hiscox Ltd subsidiaries (other)	(2,671)	(945)
	29,342	44,157

The following amounts reflected in the profit and loss were transacted with related parties:

Net income and (expenses) reflected in the profit and loss	2017 £000	2016 £000
Other HSL managed Syndicates	49	(158)
Hiscox Ltd subsidiaries (intermediary services)	(49,577)	(45,829)
Hiscox Ltd subsidiaries (insurance)	649	323
Hiscox Ltd subsidiaries (other)	(14,553)	(12,614)
	(63,432)	(58,278)

Hiscox Syndicates Limited charges no managing agent fees or profit commission to Syndicate 3624 (2016: nil).

Hiscox Underwriting Group Services Limited charges administrative services to the Syndicate on a no profit/no loss basis.

17 Syndicate structure

The managing agent of the Syndicate is Hiscox Syndicates Limited whose immediate parent undertaking is Hiscox Holdings Limited, a company registered in England and Wales. The ultimate parent undertaking of the largest and smallest group of companies for which group accounts are drawn up is Hiscox Ltd, Bermuda. Copies of Hiscox Ltd financial statements can be obtained from Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda.

18 Post balance sheet event

The presentational currency of the syndicate annual accounts will change to US Dollars in 2018.

Hiscox

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