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**SYNDICATE 3623**  
**ANNUAL REPORT AND ACCOUNTS**  
**YEAR ENDED**  
**31 DECEMBER 2021**

**SYNDICATE 3623**  
**31 DECEMBER 2021**

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# SYNDICATE 3623

## 31 DECEMBER 2021

### STRATEGIC REPORT OF THE MANAGING AGENT

#### Overview

Syndicate 3623 (the 'syndicate') underwrites personal accident and sports insurance and market facilities at Lloyd's and reinsurance business ceded from Beazley's US admitted insurance company, Beazley Insurance Company, Inc. ('BICI').

Syndicate 3623 has written market facility risks since 2018. The syndicate retained 10% of these risks in 2020 and 2021, while reinsuring 64.75% to syndicate 5623 through a quota share arrangement. The syndicate acts as the host syndicate for syndicate 5623. The remaining 25.25% was reinsured with external reinsurers.

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

Syndicate Number	Capacity 2021	Capacity 2020
2623	£2,348.4m	£1,932.4m
623	£514.8m	£422.6m
5623	£144.2m	£83.5m
6107	£70.5m	£69.5m
<b>3623</b>	<b>£65.4m</b>	<b>£71.9m</b>
3622	£27.8m	£25.9m

The result for syndicate 3623 for the year ended 31 December 2021 is a profit of \$32.5m (2020: loss of \$9.0m).

#### Year of account results

The 2019 year of account declares a return on capacity of 32.2%. The 2020 year of account is currently forecasting a loss on capacity of 10%, due to adverse claims activity in its personal accident and market facilities books following the COVID-19 global pandemic.

#### Rating environment

Overall, rates on renewal business increased by 11% in 2021 (2020: increase by 13%).

#### Combined ratio

The combined ratio of an insurance provider is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. The calculation of the combined ratio for the syndicate includes all claims and other costs of the syndicate but excludes foreign exchange gains or losses. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not. The syndicate's combined ratio has improved in 2021 to 75% (2020: 118%) driven by a reduction in the claims ratio.

#### Claims

The claims ratio of an insurance provider is a measure of the claims experience and represents the ratio of its net insurance claims to net earned premium. The claims ratio improved to 26% in 2021 (2020: 73%), predominantly driven by the subsiding of the COVID-19 related claims spike.

The syndicate has prior year reserves releases of \$36.9m in 2021 (2020: strengthen of \$8.8m), primarily driven by claims releases on the older years of account in the specialty lines division.

#### Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses, were \$70.5m (2020: \$49.6m). The expense ratio of an insurance provider is a measure of the net operating expenses to net earned premium. The breakdown of these costs is shown below:

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
Brokerage costs	61.7	40.2
Other acquisition costs	2.1	1.8
<b>Total acquisition costs</b>	<b>63.8</b>	<b>42.0</b>
Administrative and other expenses	6.7	7.6
<b>Net operating expenses*</b>	<b>70.5</b>	<b>49.6</b>

\* A break-down of net operating expenses can be seen in note 4.

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### **STRATEGIC REPORT OF THE MANAGING AGENT (CONTINUED)**

Brokerage costs as a percentage of net earned premiums are approximately 43% (2020: 36%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns. Administrative expenses comprise primarily IT costs, facilities costs, Lloyd's central costs and other support costs. The expense ratio in 2021 is 49% (2020: 45%).

#### **Reinsurance**

Reinsurance is purchased for a number of reasons:

- to mitigate the impact of catastrophes such as hurricanes and non-natural catastrophes such as cyber attacks;
- to enable the syndicate to put down large lead lines on risks we underwrite; and
- to manage capital to lower levels.

In 2021, the amount spent on outward reinsurance was \$155.0m (2020: \$102.9m). As a percentage of gross premiums written it increased to 50% from 45% in 2020.

#### **Solvency II**

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

#### **Solvency capital requirement**

The current SCR has been established using our Solvency II approved internal model which has been run within the regime as prescribed by Lloyd's. In order to perform the capital assessment, we have made significant investments in both models and process:

- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk/reward profile of the business and allows teams to focus on strategies that improve return on capital.

#### **Outlook**

The 2020 underwriting year is currently forecasting a loss on capacity of 10%, predominantly due to adverse claims experience across personal accident lines arising from the COVID-19 pandemic and cyber losses ceded through the BICI internal reinsurance contract.

The 2021 underwriting year has also experienced adverse claims activity as a result of Hurricane Ida which caused significant damage in the US state of Louisiana and US Gulf coast. However, the syndicate has continued its strong premium growth in the Market Facilities book and the PA Direct portfolio has performed particularly well due to increased business written with existing clients.

The recent tragic invasion of Ukraine which has sparked war in Eastern Europe is an ongoing reminder of the complexities the syndicate faces when navigating risk. However the syndicate is positioned for significant growth through its Market Facilities lines in 2022 and the expense ratio is expected to reduce further through scale.

#### **A P Cox**

Active underwriter  
2 March 2022

# **SYNDICATE 3623**

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### **MANAGING AGENT'S REPORT**

The managing agent presents its report for the year ended 31 December 2021.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103') in accordance with the provisions of Schedule 3 of the Large and Medium-size Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

#### **Principal activities**

The principal activities of syndicate 3623 are the transaction of personal accident, sports and market facilities insurance at Lloyd's and the transaction of reinsurance business with Beazley's admitted insurance company, BICI.

#### **Risk governance and reporting**

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

#### **Climate change/Responsible business**

Led by Beazley plc's Board and supported by the Boards of Beazley Furlonge Ltd, Beazley Insurance Dac, and Beazley Insurance Company Inc, ESG issues and climate related risk have become regular agenda items throughout 2021. In March 2021 we launched our first Responsible Business Strategy. This document, and the subsequent update which is published alongside the Beazley plc annual report and accounts, sets out the goals and targets across a wider range of Environmental, Social and Governance (ESG) issues, including climate change.

In addition to the summary Responsible Business report, Beazley plc has disclosed its compliance with the TCFD's Recommendations and Recommended Disclosures at the consolidated group level in the Beazley plc annual report and accounts. The 2021 Beazley Annual report and accounts can be found here: <https://reports.beazley.com/2021-annual/>.

#### **Risk Management**

As a risk-taking organisation, we pride ourselves on understanding the drivers of risk for our clients and our business and in seeking ways to mitigate it. As the syndicate continues its journey of change and growth, the risk function is focused on delivering complementary risk oversight improvements.

The last two years of navigating the pandemic have demonstrated just how quickly a risk can change. It demonstrated the importance of the syndicate continuing to monitor the development of other significant risks. As an example, the risk that cyber threats pose to the global economy, to society and to Beazley has climbed up the risk function's agenda. Similarly, the changing scale and profile of natural catastrophe risk driven by climate change has become apparent. The Climate change and responsible business section of this report sets out our approach to risk in managing climate change.

As a risk function we must be ready to explore the changing risk landscape. By creating a risk culture that embeds risk management into our daily operations, built around a robust risk framework, we are able to manage challenges to our assumptions about risks as they arise, whilst protecting our business and those of our clients.

You will be able to read the details of the performance of our risk framework further in this report, but we would like to pick out some highlights for our work on risk during 2021 below. During 2021 we have been actively enhancing the risk management framework to ensure it supports our risk oversight responsibilities and effective challenge of the changing risk landscape. This includes risks arising from our growth plans, and the business' programme of operational enhancement. Our risk framework will also need to adapt to ensure it remains able to manage an increasingly complex risk and controls environment. Just as importantly, we will need to stress test management's assumptions about risk mitigation to ensure they will remain resilient should risks crystallise.

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### **MANAGING AGENT'S REPORT (CONTINUED)**

While we manage the challenges that growth and operational enhancement can bring, we also need to address emerging and climate risks as well as regulatory and legal changes such as preparing for the Beazley Group implementation of IFRS 17, IFRS 9, and BEIS proposals for governance reform. The risk function is actively engaged in these initiatives to provide second line oversight and ensure the risk framework adapts accordingly.

Key to the success of the performance of risk management across the business has been building the collaboration between Beazley's assurance functions, in particular the compliance and risk teams under the new structure, to deliver a more robust second line oversight function. As we move forward, working with our colleagues across the business to further embed risk management into our business processes will ensure that we are able to achieve our goals supported by a robust risk culture.

#### **Control statement**

The latest chief risk officer report to the board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes.

#### **Risk management philosophy**

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

#### **Risk management strategy**

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

The board has also delegated oversight of the risk management framework to the risk committee.

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees are aware of the role they play in all aspects of the risk management process, from identifying sources of risk to playing their part in the control environment. The impact of each risk is recorded in the risk register on a 1:10 likelihood of that risk manifesting in the next 12 months. A risk owner has been assigned responsibility for each risk, and it is the responsibility of that individual to periodically assess the impact of the risk and to ensure appropriate risk mitigation procedures are in place. External factors facing the business and the internal controls in place are routinely reassessed and changes made when necessary.

On an annual basis the board agrees the risk appetite for each risk event and this is documented in the risk management framework document. The residual financial impact is managed in a number of ways, including:

- mitigating the impact of the risk through the application of controls;
- transferring or sharing risk through outsourcing and purchasing insurance and reinsurance; and
- tolerating risk in line with the risk appetite.

In addition, the following core risk management principles have been adopted:

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

**MANAGING AGENT'S REPORT (CONTINUED)**

**Risk management framework**

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

**1st line of defence – business risk management**  
**Risk ownership**

- Identifies risk
- Assesses risk
- Mitigates risk
- Monitors risk
- Records status
- Remediate when required

**2nd line of defence – risk management and compliance**  
**Risk oversight**

- Challenge that risks are being identified
- Assess the risk mitigation strategy
- Monitor that controls are operating effectively
- Reports to committees and Board on risk and control issues with risk management opinions

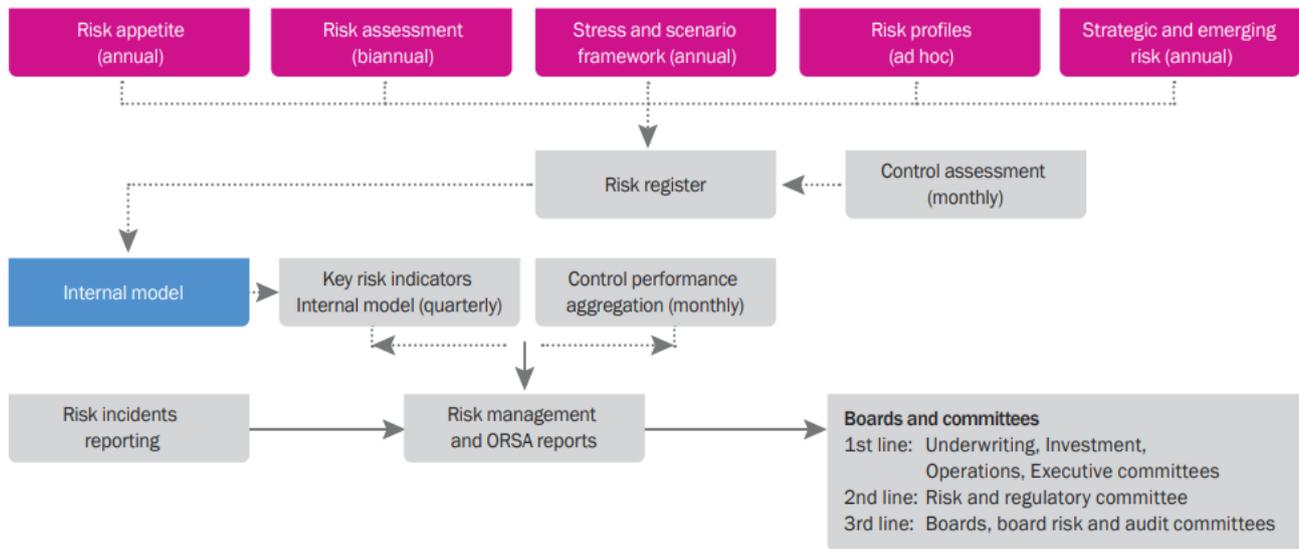
**3rd line of defence – internal audit**  
**Risk assurance**

- Independently tests control design
- Independently tests control operation
- Reports to committees and Board

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day-to-day basis. The framework includes a risk register that captures the risk universe (approximately 50 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the board, and the control environment that is operated by the business to remain within the risk appetite and which is monitored and signed off by control reporters.

**MANAGING AGENT’S REPORT (CONTINUED)**

**Risk Management Framework**



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

In summary, the board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. The risk management function reviews and challenges these assessments and reports to the board on how well the business is operating, using a risk management report.

For each risk, the risk management report brings together a view of how successfully the business is managing risk and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually evaluated and where appropriate improved, through the consideration of stress and scenario testing, themed reviews using risk profiles, and an assessment of strategic and emerging risks.

During 2021 the risk management framework was enhanced with regards to evidencing risk management challenge, assessing emerging risks and assessing risk culture. A suite of risk management reports are provided to the boards and committees to assist senior management and board members to discharge their oversight and decision making responsibilities. The risk reports include the risk appetite statement, the risk management report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the Beazley plc remuneration committee and the Own Risk and Solvency Assessment (ORSA) report.

The internal audit function considers the risk management framework in the development of its audit universe to determine its annual risk-based audit plan. The plan is based on, among other inputs, the inherent and residual risk scores as captured in the risk register. Finally, a feedback loop operates, with recommendations from the internal audit reviews being assessed by the business and the risk management function for inclusion in the risk register as appropriate.

**The risk to financial performance**

The board of the managing agent monitors and manages risks grouped into eight categories, which cover the universe of risk that could affect the syndicate. The board confirm that they have undertaken a robust assessment of the principal and emerging risks and uncertainties that the syndicate faces. The board considers insurance and strategic risk categories to be the most significant for Beazley. Refer below for further discussion of climate change risk, and how it interacts with the risks and uncertainties discussed here.

**Insurance Risk**

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

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### MANAGING AGENT'S REPORT (CONTINUED)

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

### Strategic Risk

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

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

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### MANAGING AGENT'S REPORT (CONTINUED)

- **Corporate transaction:** There is a risk that Beazley could undertake a corporate transaction which did not return the expected value to the syndicate. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

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

#### Other Enterprise Risk

The remaining six risk categories monitored by the board are:

- **Market (asset) risk:** This is the risk that the value of investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk pertains to the direct investment funds of syndicate 3623 as well as funds held and managed by syndicate 2623 on behalf of syndicate 3623. This risk is monitored by the investment committee.
- **Operational risk:** This is the risk of failures of people, processes and systems or the impact of an external event on the syndicate's operations, and is monitored by the operations committee. An example would be a cyber-attack having a detrimental impact on our operations.
- **Credit risk:** The syndicate has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The underwriting committee monitors this risk. There is also credit risk associated with the amounts due on assets held and managed by syndicate 2623.
- **Regulatory and legal risk:** This is the risk that the syndicate might fail to operate in line with the relevant regulatory framework in the territories where it does business. Of the eight risk categories, the board has the lowest tolerance for this risk. This risk is monitored by the risk and regulatory committee.
- **Liquidity risk:** This is the risk that the syndicate might not have sufficient liquid funds following a catastrophic event. This risk may be impacted for investments which are held and managed on behalf of the syndicate by syndicate 2623. The investment committee monitors this risk to ensure there is sufficient liquidity which, given the nature of the asset portfolio, is currently small.
- **Group risk:** The key risk is a deterioration in the group's culture which leads to inappropriate behavior, actions or decisions. This is monitored through engagement surveys, staff feedback and regular dialogue with senior management. The other main group risk is that one group entity operates to the detriment of another group entity or entities, for example the intragroup reinsurance with Beazley Insurance Company, inc and the management of certain investments by syndicate 2623. The Beazley plc board monitors this risk through the reports it receives from each entity.

#### Financial crime risk

The managing agent also considered anti-bribery and corruption risk across all risk categories. We are committed to ensuring that all business is conducted in an ethical and honest manner, and that we are not involved in any illicit activity defined under the UK Bribery Act 2010 and US Foreign Corrupt Practices Act 1977. This risk includes the risk of bribery and corruption we are exposed to and manifests itself in the susceptibility to unethical or dishonest influences whereby illicit payments and/or inducements are either made or received.

Such activity has severe reputational, regulatory and legal consequences, including fines and penalties.

Considerations relevant to this risk include the nature, size and type of transactions, the jurisdiction in which transactions occur, and the degree to which agents or third parties are used during such transactions.

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

#### Climate change risk

The changing global climate is recognised as an important emerging risk due to its widespread potential impact on the global population, environment and economy. A key aspect of the syndicate's business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. As a speciality insurer, various classes of business we underwrite are subject to the effect climate change presents to the risk environment. More detailed information on Beazley's focus on responsible business and sustainability can be found within the annual report of Beazley plc (available at [www.Beazley.com](http://www.Beazley.com))

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### MANAGING AGENT'S REPORT (CONTINUED)

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

- **Pricing risk:** This is the risk that current pricing levels do not adequately consider the prospective impact of climate change, resulting in systemic underpricing of climate-exposed risks. The syndicate's business planning process establishes how much exposure in certain classes of business or geographic area we wish to accept. We benefit from a feedback loop between our claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk-by-risk transactional level considerations. Our underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk.
- **Catastrophe risk:** This is the risk that current models do not adequately capture the impact of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events (e.g. wildfires) that could drive higher-than-expected insured losses. The syndicate utilises commercial catastrophe models to facilitate the estimation of aggregate exposures based on the syndicate's underwriting portfolio. These catastrophe models are updated to reflect the latest scientific perspectives. Catastrophe models are evolving to include new or secondary perils which may be related to climate change. In addition, the syndicate runs a series of Natural Catastrophe Realistic Disaster Scenarios (RDS) on a monthly basis which monitor the syndicate's exposure to certain scenarios that could occur. These RDS include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.
- **Reserve risk:** This is the risk that established reserves are not sufficient to reflect the ultimate impact climate change may have on paid losses. This includes unanticipated liability risk losses arising from our clients facing litigation if they are held to be responsible for contributing to climate change, or for failing to act properly to respond to the various impacts of climate change. With support from the Beazley actuarial team, claims teams and other members of management the syndicate establishes financial provisions for our ultimate claims liabilities. The syndicate maintains a prudent approach to reserving to help mitigate the uncertainty within the reserves estimation process.
- **Asset risk:** This is the risk that climate change has a significant impact across a number of industries which may negatively impact the value of investments in those companies. The managing agent considers the impact of climate change on the syndicate's asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. The managing agent subscribes to the research services of a specialist company in the field of environmental, social and governance research and have integrated their proprietary ratings into the internal credit process applied to investments in corporate debt securities. A minimum standard for environmental, social and governance performance is defined and companies not meeting the required standard will be excluded from the approved list of issuers. The analysis also includes consideration of the sustainability of each company with regard to the potential decline in demand in specific sectors.
- **External event risk:** This is the risk that the physical impact of climate related events has a material impact on our own people, processes and systems leading to increased operating costs or the inability to deliver uninterrupted client service. The syndicate has business continuity plans in place to minimize the risk of an interrupted client service in the event of a disaster.
- **Commercial management risk:** The syndicate aims to minimise where possible the environmental impact of our business activities and those that arise from the occupation of our office spaces. As we operate in leased office spaces our ability to direct environmental impacts is limited. However we do choose office space with climate change mitigation in mind, and engage with our employees, vendors and customers in an effort to reduce overall waste and our environmental footprint.
- **Credit risk:** As a result of material natural catastrophe events, there is a risk that our reinsurance counterparties are unable to pay reinsurance balances due to the syndicate. If the frequency or severity of these events is increased due to climate change this could cause a corresponding increase in credit risk. An important consideration when placing our reinsurance programme is evaluation of our counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking which considers financial strength ratings, capital metrics, performance metrics and other considerations.
- **Regulatory and legal risk:** Regulators, investors and other stakeholders are becoming increasingly interested in companies' responses to climate change. Failure to appropriately engage with these stakeholders and provide transparent information may result in the risk of reputational damage or increased scrutiny. The syndicate regularly monitors the regulatory landscape to ensure that we can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk.
- **Liquidity risk:** Linked to the underwriting and credit risks noted above, there is a risk that losses resulting from unprecedented natural disasters or extreme weather could erode the ability of the syndicate to pay claims and remain solvent. Beazley establishes capital at a 1:200 level based on the prevailing business plan.

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### **MANAGING AGENT'S REPORT (CONTINUED)**

#### **Directors**

A list of directors of the managing agent who held office during the year and to the date of this report can be found on page 50.

#### **Disclosure of information to the auditor**

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

#### **Auditor**

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

On behalf of the board

**S M Lake**  
**Finance Director**

2 March 2022

# **SYNDICATE 3623**

## **31 DECEMBER 2021**

### **STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES**

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

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

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these financial statements, the directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

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

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

On behalf of the board

**S M Lake**  
**Finance Director**

2 March 2022

# **SYNDICATE 3623**

## **31 DECEMBER 2021**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 3623**

#### **Opinion**

We have audited the syndicate annual accounts of syndicate 3623 ('the syndicate') for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- ▶ give a true and fair view of the syndicate's affairs as at 31 December 2021 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

#### **Basis for opinion**

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

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

#### **Conclusions relating to going concern**

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of 12 months from when the syndicate annual accounts are authorised for issue.

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

#### **Other information**

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

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

# **SYNDICATE 3623**

## **31 DECEMBER 2021**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 3623 (CONTINUED)**

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

#### **Responsibilities of the managing agent**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 13, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

## **SYNDICATE 3623**

### **31 DECEMBER 2021**

#### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 3623 (CONTINUED)**

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

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

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

Our approach was as follows:

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

These procedures included testing manual journals and were designed to provide reasonable assurance that the Annual Accounts were free from fraud or error.

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

**SYNDICATE 3623**  
**31 DECEMBER 2021**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 3623 (CONTINUED)**

**Use of our report**

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

*Stuart Wilson (Senior statutory auditor)*

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

*London*

*3 March 2022*

**SYNDICATE 3623**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**YEAR ENDED 31 DECEMBER 2021**

	Notes	2021 \$m	2020 \$m
Gross premiums written	3	312.1	228.6
Outward reinsurance premiums		(155.0)	(102.9)
Net premiums written		<u>157.1</u>	<u>125.7</u>
Change in the gross provision for unearned premiums	12	(37.6)	(44.7)
Change in the provision for unearned premiums, reinsurers' share	12	22.8	29.5
Change in the net provision for unearned premiums		<u>(14.8)</u>	<u>(15.2)</u>
<b>Earned premiums, net of reinsurance</b>		<b><u>142.3</u></b>	<b><u>110.5</u></b>
Allocated investment return transferred from the non-technical account	8	0.6	8.8
Gross claims paid		(78.8)	(85.4)
Reinsurers' share of claims paid		35.5	19.0
Claims paid net of reinsurance		<u>(43.3)</u>	<u>(66.4)</u>
Change in the gross provision for claims	12	(76.8)	(84.4)
Change in the provision for claims, reinsurers' share	12	83.3	70.5
Change in the net provision for claims		<u>6.5</u>	<u>(13.9)</u>
<b>Claims incurred, net of reinsurance</b>		<b><u>(36.8)</u></b>	<b><u>(80.3)</u></b>
<b>Net operating expenses</b>	4	<b><u>(70.5)</u></b>	<b><u>(49.6)</u></b>
<b>Balance on the technical account</b>		<b><u>35.6</u></b>	<b><u>(10.6)</u></b>
Investment income	8	4.2	6.0
Investment expenses and charges	8	(0.1)	(0.1)
Realised (losses)/gains on investments	8	(0.2)	1.0
Unrealised (losses)/gains on investments	8	(3.3)	1.9
		<u>0.6</u>	<u>8.8</u>
Allocated investment return transferred to general business technical account		(0.6)	(8.8)
(Loss)/profit on foreign exchange		(3.1)	1.6
<b>Profit / (Loss) for the financial year</b>		<b><u>32.5</u></b>	<b><u>(9.0)</u></b>

All of the above operations are continuing.

The notes on pages 22 to 49 form part of these financial statements.

**SYNDICATE 3623  
STATEMENT OF CHANGES IN MEMBERS' BALANCES  
31 DECEMBER 2021**

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
<b>Member's balances brought forward at 1 January</b>	<b>(2.6)</b>	<b>3.1</b>
Profit/(Loss) for the financial year	<b>32.5</b>	(9.0)
Loss collection- 2017 year of account	-	3.3
Profit distribution- 2018 year of account	<b>(24.9)</b>	-
<b>Member's balances carried forward at 31 December</b>	<b>5.0</b>	<b>(2.6)</b>

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

The notes on pages 22 to 49 form part of these financial statements.

**SYNDICATE 3623  
BALANCE SHEET  
AS AT 31 DECEMBER 2021**

<b>ASSETS</b>	<b>Notes</b>	<b>2021 \$m</b>	<b>2020 \$m</b>
<b>Financial assets at fair value</b>	9	<b>247.4</b>	<b>220.4</b>
<b>Deposits due from ceding undertakings</b>		<b>3.7</b>	<b>-</b>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums, reinsurers' share	12	73.2	50.6
Claims outstanding, reinsurers' share	12	215.6	135.0
		<b>288.8</b>	<b>185.6</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations		112.6	52.7
Debtors arising out of reinsurance operations		39.6	46.3
Other debtors	10	164.0	125.3
		<b>316.2</b>	<b>224.3</b>
<b>Cash at bank and in hand</b>	11	<b>28.1</b>	<b>26.0</b>
<b>Deferred acquisition costs</b>	14	<b>34.9</b>	<b>25.7</b>
<b>Other prepayments and accrued income</b>		<b>1.2</b>	<b>1.6</b>
<b>TOTAL ASSETS</b>		<b>920.3</b>	<b>683.6</b>
<b>LIABILITIES, CAPITAL AND RESERVES</b>			
<b>Capital and reserves</b>			
Member's balances attributable to underwriting participations		<b>5.0</b>	<b>(2.6)</b>
<b>Technical provisions</b>			
Provision for unearned premiums	12	136.3	99.4
Claims outstanding	12	444.2	370.5
		<b>580.5</b>	<b>469.9</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	13	1.4	1.1
Creditors arising out of reinsurance operations	13	130.6	73.6
Other creditors	13	196.7	134.6
		<b>328.7</b>	<b>209.3</b>
<b>Accruals and deferred income</b>		<b>6.1</b>	<b>7.0</b>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<b>920.3</b>	<b>683.6</b>

The notes on pages 22 to 49 form part of these financial statements

The syndicate annual accounts on pages 18 to 49 were approved by the board of Beazley Furlonge Limited on 2 March 2022 and were signed on its behalf by

.....  
**A P Cox** (Active underwriter)

.....  
**S M Lake** (Finance director)

**SYNDICATE 3623**  
**CASH FLOW STATEMENT**  
**YEAR ENDED 31 DECEMBER 2021**

Notes	2021 \$m	2020 \$m
<b>RECONCILIATION OF TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		
Total comprehensive profit/(loss) for the financial year	32.5	(9.0)
Deposits due from ceding undertakings	(3.7)	-
Investment return	(0.6)	(8.8)
Decrease in net technical provisions	7.4	33.3
Increase in debtors	(91.5)	(107.3)
Increase in creditors	118.5	70.2
Increase in deferred acquisition costs	(9.2)	(9.6)
<b>Net cash generated/(outflow) from operating activities</b>	<b>53.4</b>	<b>(31.2)</b>
Cash received from investment return	3.9	6.9
Net (purchase)/sale of investments	(13.0)	25.3
<b>Net cash (used in)/from investing activities</b>	<b>(9.1)</b>	<b>32.2</b>
Transfer (to)/from member in respect of underwriting participations	(24.9)	3.3
<b>Net cash (used in)/from financing activities</b>	<b>(24.9)</b>	<b>3.3</b>
<b>Net increase in cash and cash equivalents</b>	<b>19.4</b>	<b>4.3</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>32.0</b>	<b>26.5</b>
Effect of exchange rate changes on cash and cash equivalents	(0.1)	1.2
<b>Cash and cash equivalents at the end of the year</b>	<b>51.3</b>	<b>32.0</b>
11		

The notes on pages 22 to 49 form part of these financial statements.

# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **YEAR ENDED 31 DECEMBER 2021**

#### **1. Accounting policies**

##### **Basis of preparation**

Syndicate 3623 (the 'syndicate') comprises a member of the Society of Lloyd's that underwrite insurance business in the London Market. The address of the syndicate's managing agent is given on page 50.

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

The syndicate has undertaken a change in the presentation for certain premiums payable which required restatement of the prior year balances. For more information, please see note 13 to these financial statements. The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in US dollars, being the syndicate's functional currency, and in millions, unless noted otherwise.

##### **Going Concern**

The financial statements of the syndicate have been prepared on a going concern basis. The syndicate's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report contained in the annual report. In addition, the Strategic report includes the syndicate's risk management objectives and the entity's objectives, policies and processes for managing its capital.

In assessing the syndicate's going concern position as at 31 December 2021, the directors have considered a number of factors, including the current statement of financial position and the syndicate's strategic and financial plan. The assessment concluded that, for the foreseeable future, the syndicate has sufficient capital and liquidity for the 12 months from the date financial statement are authorised for issue.

##### **Part VII transfer**

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

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the member of the syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of \$3.1m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of \$3.1m. The combined effect of the two transactions had no economic impact for the syndicate, and accordingly there is no impact on the syndicate's profit or loss statement and balance sheet.

##### **Use of estimates and judgements**

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Estimates which are sensitive to changes in future economic conditions could be impacted by significant changes in the economic and regulatory environment, such as COVID-19, climate change, US legislation and Brexit. Specific to climate change,

## **SYNDICATE 3623**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **YEAR ENDED 31 DECEMBER 2021**

since responses to it are still developing, it is not possible to consider all possible future outcomes when determining asset and liability valuations, and timing of future cash flows, as these are not yet known. Nevertheless, the current management view is that reasonably possible changes arising from climate risks would not have a material impact on asset and liability valuations at the year-end date.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most critical estimate included within the syndicate's balance sheet is the estimate for insurance losses incurred but not reported ('IBNR') which is included within total technical provisions and reinsurer's share of technical provisions in the balance sheet and note 12. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate as at 31 December 2021 included within claims outstanding in the balance sheet is \$337.5m (2020: \$287.4m).

Another critical area of estimation is the syndicate's financial assets and liabilities. Information about estimation uncertainty related to the syndicate's financial assets and liabilities is described in this statement of accounting policies and in note 9 (financial assets and liabilities).

Other key estimates contained within the syndicate close process are premium estimates and the earning pattern of recognising premium over the life of the contract. In the syndicate the premium written is initially based on the estimated premium income ('EPI') of each contract. Where premium is sourced through binders and facilities, the binder and facility EPI is pro-rated across the binder and facility period's. This is done on a straight-line basis unless the underlying writing pattern from the prior period indicates the actual underlying writing pattern is materially different.

The underwriters adjust their EPI estimates as the year of account matures. As the year of account closes premiums are adjusted to match the actual / expected signed premium for long tail classes. An accrual for estimated future reinstatement premiums is retained. Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

Estimation techniques are necessary to quantify the future premium on all syndicate business written and are commonly used within the Lloyd's insurance market. The majority of the estimation arises within the binder and lineslip estimates where the premium amounts are dependent on the volume of policies that are insured under the binder/lineslip over the coverage period. In these cases underwriters estimate an initial premium volume and then adjust throughout the life of the binder/lineslip as and when new information becomes available. The process of determining the EPI is based on a number of factors, which can include:

- Coverholder business plan documents supplied prior to binding;
- Historical trends of business written;
- Current and expected market conditions for this line of business; and
- Life to date bordereaux submissions versus expectation.

Due to the nature of Lloyd's business and the settlement patterns of the underlying business it is also not uncommon for some contracts to take a number of years to finalise and settle, and as such remain a receivable on the balance sheet. The amount of estimated future premium that remains in insurance receivables relating to years of account that are more than three years developed at 31 December 2021 is \$3.2m (2020: \$4.3m).

#### **Significant accounting policies**

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

# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **YEAR ENDED 31 DECEMBER 2021**

#### **1. Accounting policies (continued)**

(a) Premiums

Gross premiums written comprise premiums on contracts incepted during the financial year. Premiums are stated before the deduction of brokerage, taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods. For the year ending 31 December 2020, gross premiums written includes a one off transfer of business to Lloyd's Brussels and subsequent inward reinsurance of business from Lloyd's Brussels to reflect the Part VII transfer. The net impact of this transaction is nil.

(b) Unearned premiums

A provision for unearned premiums represents the part of the gross premiums written that is estimated will be earned in the following or subsequent financial periods. It is calculated using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

(c) Provisions & Claims

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported ('IBNR') and future claims handling provisions.

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

Reinsurance recoveries are accounted for in the same period as the incurred claims for the related business. The reinsurers' share of provisions for claims is based on calculated amounts for outstanding claims and projections for IBNR, net of estimated irrecoverable amounts having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

(d) Liability adequacy testing

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of deferred acquisition costs ('DAC') and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses as well as investment income from the assets backing such liabilities are used.

Any deficiency is immediately charged to the income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ('unexpired risk provision'). There is currently no unexpired risk provision.

(e) Acquisition costs

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

# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **YEAR ENDED 31 DECEMBER 2021**

#### **1. Accounting policies (continued)**

- (f) Foreign currencies  
Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the syndicate considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction.
- (g) Deposits with ceding undertakings  
Deposits with ceding undertakings represents funds held by Lloyd's Brussels on behalf of the syndicate to settle Part VII claims. These funds are measured at cost less allowance for impairment.
- (h) Investment return  
Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

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

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

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

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

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

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

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

# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **YEAR ENDED 31 DECEMBER 2021**

#### **1. Accounting policies (continued)**

(j) Financial instruments

Financial instruments are recognised in the balance sheet at such time that the syndicate becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date the syndicate commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership.

*Financial assets*

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

*Financial assets at fair value through profit or loss*

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

*Fair value measurement*

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

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

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

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

# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **YEAR ENDED 31 DECEMBER 2021**

#### **1. Accounting policies (continued)**

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

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

- (k) Insurance debtors and creditors  
Insurance debtors and creditors are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. These are classified as 'insurance debtors and creditors' as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance debtors are measured at amortised cost less any provision for impairments. Insurance creditors are stated at amortised cost.
- (l) Other debtors  
Other debtors principally consist of intercompany debtor balances and sundry debtors and are carried at amortised cost less any impairment losses.
- (m) Other creditors  
Other creditors are stated at amortised cost determined on the effective interest rate method.
- (n) Impairment of financial assets  
The syndicate assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset or group of financial assets that can be reliably estimated.
- If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the assets carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in profit or loss.
- (o) Cash and cash equivalent  
This consists of cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition. Cash at bank and in hand balances are classified as loans and receivables and carried at amortised cost less any impairment losses.
- (p) Taxation  
Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **YEAR ENDED 31 DECEMBER 2021**

#### **1. Accounting policies (continued)**

(q) Pension costs

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

(r) Related party transactions

As the syndicate is wholly owned by Beazley plc, the syndicate has taken advantage of the exemption contained in FRS 102.1 and has therefore not disclosed transactions or balances with other wholly owned entities forming part of the group.

#### **2. Risk management**

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

##### **2.1 Insurance risk**

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

*a) Underwriting risk*

Underwriting risk comprises four elements that apply to all insurance products offered by the syndicate:

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

The syndicate's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geography and size.

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

The syndicate's underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include but are not limited to the financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses. The syndicate also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

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

To manage underwriting exposures, the syndicate has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2021, the absolute maximum line that any one underwriter could commit the syndicate to was \$72m (2020 absolute maximum line: \$50m). In most cases, maximum lines for classes of business were much lower than this.

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**2. Risk management (continued)**

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

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

**Binding Authority contracts**

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**2. Risk management (continued)**

**Operating divisions**

In 2021, the syndicate's business consisted of three operating divisions. The following table provides a breakdown of gross premiums written/(returned) by division.

	<b><u>2021</u></b>	<b><u>2020</u></b>
Life, accident and health	22%	23%
Reinsurance	14%	19%
Market Facilities	64%	58%
<b>Total</b>	<b>100%</b>	<b>100%</b>

*b) Reinsurance risk*

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

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

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

*c) Claims management risk*

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

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

*d) Reserving and ultimate reserves risk*

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

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

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**2. Risk management (continued)**

*e) Reserving and ultimate reserves risk (continued)*

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

Sensitivity to insurance risk (claims reserves)	5% increase in net claims reserves		5% decrease in net claims reserves	
	2021	2020	2021	2020
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Impact on profit and equity	(11.4)	(11.8)	11.4	11.8

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

**Concentration of insurance risk**

	<u>2021</u>	<u>2020</u>
US	27%	31%
Europe*	15%	16%
Other	58%	53%
<b>Total</b>	<b>100%</b>	<b>100%</b>

\*Includes UK

**2.2 Financial Risk**

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

**2.3 Strategic risk**

This is the risk that Beazley Furlonge Limited's strategy is inappropriate or that Beazley Furlonge Limited is unable to implement its strategy. Where events supersede the strategic plan this is escalated at the earliest opportunity through Beazley Furlonge Limited's monitoring tools and governance structure.

**Senior management responsibilities**

Management stretch is the risk that business growth might result in an insufficient or overly complicated management team structure, thereby undermining accountability and control within the syndicate. As the syndicate expands its worldwide business in the UK, North America, Europe, South America and Asia, management stretch may make the identification, analysis and control of risks more complex.

On a day-to-day basis, Beazley Furlonge Limited's management structure encourages organizational flexibility and adaptability, while ensuring that activities are appropriately co-ordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm low risk tolerance by aligning interests to ensure that routine activities, projects and other initiatives are implemented to benefit and protect resources of both local business segments and the syndicate as a whole.

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**2. Risk management (continued)**

**2.4 Market risk**

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

**Foreign exchange risk**

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

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

In 2021, the syndicate managed its foreign exchange risk by periodically assessing its non-dollar settlement currency exposures and hedging these to a tolerable level while targeting net assets to be predominately US dollar denominated. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk. The syndicate's assets are broadly matched by currency to the principal underlying currencies of its insurance liabilities. This helps mitigate the risk that future movements in exchange rates would materially impact the syndicate's assets required to cover its insurance liabilities.

**Foreign exchange risk (continued)**

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

<b>31 December 2021</b>	<b>UK £ \$m</b>	<b>CAD \$ \$m</b>	<b>EUR € \$m</b>	<b>Subtotal \$m</b>	<b>US \$ \$m</b>	<b>Total \$m</b>
Total assets	86.5	25.4	39.4	151.3	769.0	920.3
Total liabilities	(78.9)	(9.8)	(14.2)	(102.9)	(812.4)	(915.3)
<b>Net assets</b>	<b>7.6</b>	<b>15.6</b>	<b>25.2</b>	<b>48.4</b>	<b>(43.4)</b>	<b>5.0</b>

<b>31 December 2020</b>	<b>UK £ \$m</b>	<b>CAD \$ \$m</b>	<b>EUR € \$m</b>	<b>Subtotal \$m</b>	<b>US \$ \$m</b>	<b>Total \$m</b>
Total assets	48.9	19.1	14.4	82.4	601.2	683.6
Total liabilities	(56.2)	(18.2)	3.5	(70.9)	(615.3)	(686.2)
<b>Net assets</b>	<b>(7.3)</b>	<b>0.9</b>	<b>17.9</b>	<b>11.5</b>	<b>(14.1)</b>	<b>(2.6)</b>

**Sensitivity analysis**

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**2. Risk management (continued)**

Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	Impact on profit for the year ended		Impact on net assets	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Dollar weakens 30% against other currencies	14.5	3.4	14.5	3.4
Dollar weakens 20% against other currencies	9.7	2.3	9.7	2.3
Dollar weakens 10% against other currencies	4.8	1.1	4.8	1.1
Dollar strengthens 10% against other currencies	(4.8)	(1.1)	(4.8)	(1.1)
Dollar strengthens 20% against other currencies	(9.7)	(2.3)	(9.7)	(2.3)
Dollar strengthens 30% against other currencies	(14.5)	(3.4)	(14.5)	(3.4)

***Interest rate risk***

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

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

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**2. Risk management (continued)**

**Duration**

**31 December 2021**

	<b>&lt;1 yr \$m</b>	<b>1-2 yrs \$m</b>	<b>2-3 yrs \$m</b>	<b>3-4 yrs \$m</b>	<b>4-5 yrs \$m</b>	<b>5-10 yrs \$m</b>	<b>&gt;10 yrs \$m</b>	<b>Total \$m</b>
Fixed and floating rate debt securities Syndicate	77.5	107.5	45.2	9.4	4.8	-	-	244.4
loan to Lloyd's central fund	-	-	0.5	2.5	-	-	-	3.0
Derivative financial instruments	-	-	-	-	-	-	-	-
Cash at bank and in hand	28.1	-	-	-	-	-	-	28.1
<b>Total</b>	<b>105.6</b>	<b>107.5</b>	<b>45.7</b>	<b>11.9</b>	<b>4.8</b>	<b>-</b>	<b>-</b>	<b>275.5</b>

**31 December 2020**

	<b>&lt;1 yr \$m</b>	<b>1-2 yrs \$m</b>	<b>2-3 yrs \$m</b>	<b>3-4 yrs \$m</b>	<b>4-5 yrs \$m</b>	<b>5-10 yrs \$m</b>	<b>&gt;10 yrs \$m</b>	<b>Total \$m</b>
Fixed and floating rate debt securities Syndicate	78.4	51.2	22.7	38.4	17.5	9.0	-	217.2
loan to Lloyd's central fund	-	-	-	0.5	2.7	-	-	3.2
Cash at bank and in hand	26.0	-	-	-	-	-	-	26.0
<b>Total</b>	<b>104.4</b>	<b>51.2</b>	<b>22.7</b>	<b>38.9</b>	<b>20.2</b>	<b>9.0</b>	<b>-</b>	<b>246.4</b>

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**2. Risk management (continued)**

***Sensitivity analysis***

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

Shift in yield (basis points)	Impact on profit for the year		Impact on net assets	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
50 basis point increase	(1.9)	(2.1)	(1.9)	(2.1)
50 basis point decrease	1.9	2.1	1.9	2.1

***Price risk***

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

Financial assets include fixed and floating debt securities. The fixed income securities are well diversified across high quality, liquid securities. The price risk associated with these securities is predominantly interest, foreign exchange and credit risk related. The investment committee has established comprehensive guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company.

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

**2.5 Operational risk**

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

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

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

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

Key components of Beazley Furlonge Limited's operational control environment include:

- SCR modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**2. Risk management (continued)**

**2.6 Credit risk**

Credit risk arises from the failure of another party to perform its financial or contractual obligations to the syndicate in a timely manner. The primary sources of credit risk for the syndicate are:

- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the syndicate;
- investments – whereby issuer default results in the syndicate losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash at bank and in hand.

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

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

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

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

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

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

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

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

<b>31 December 2021</b>	<b>Tier 1 \$m</b>	<b>Tier 2 \$m</b>	<b>Tier 3 \$m</b>	<b>Tier 4 \$m</b>	<b>Unrated \$m</b>	<b>Total \$m</b>
Financial assets at fair value						
- fixed and floating rate debt securities	239.3	5.1	-	-	-	244.4
- syndicate loan to Lloyd’s central fund	3.0	-	-	-	-	3.0
- equity funds	-	-	-	-	-	-
- hedge funds	-	-	-	-	-	-
- illiquid credit assets	-	-	-	-	-	-
- derivative financial instruments	-	-	-	-	-	-
Reinsurance debtors	15.0	-	-	-	-	15.0
Reinsurers’ share of outstanding claims	213.5	-	-	-	2.1	215.6
Cash at bank and in hand	28.1	-	-	-	-	28.1
<b>Total</b>	<b>498.9</b>	<b>5.1</b>	<b>-</b>	<b>-</b>	<b>2.1</b>	<b>506.1</b>

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**2. Risk management (continued)**

<b>31 December 2020</b>	<b>Tier 1 \$m</b>	<b>Tier 2 \$m</b>	<b>Tier 3 \$m</b>	<b>Tier 4 \$m</b>	<b>Unrated \$m</b>	<b>Total \$m</b>
Financial assets at fair value						
- fixed and floating rate debt securities	217.2	-	-	-	-	217.2
- syndicate loan to Lloyd's central fund	3.2	-	-	-	-	3.2
- equity funds	-	-	-	-	-	-
- hedge funds	-	-	-	-	-	-
- illiquid credit assets	-	-	-	-	-	-
- derivative financial instruments	-	-	-	-	-	-
Reinsurance debtors	2.8	-	-	-	-	2.8
Reinsurers' share of outstanding claims	135.0	-	-	-	-	135.0
Cash at bank and in hand	26.0	-	-	-	-	26.0
<b>Total</b>	<b>384.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>384.2</b>

<b>December 2021</b>	<b>Neither due nor impaired \$m</b>	<b>Up to 3 months past due \$m</b>	<b>3 – 6 months past due \$m</b>	<b>6 – 12 months past due \$m</b>	<b>Greater than 1 year past due \$m</b>	<b>Total \$m</b>
Insurance debtors	109.5	2.4	0.4	-	0.3	112.6
Reinsurance assets	15.0	0.1	-	0.7	-	15.8

<b>December 2020</b>	<b>Neither due nor impaired \$m</b>	<b>Up to 3 months past due \$m</b>	<b>3 – 6 months past due \$m</b>	<b>6 – 12 months past due \$m</b>	<b>Greater than 1 year past due \$m</b>	<b>Total \$m</b>
Insurance debtors	47.4	2.5	1.3	1.5	-	52.7
Reinsurance assets	2.8	-	0.2	-	-	3.0

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets (2020:Nil). No other financial assets held at year end were impaired.

**2.7 Regulatory and legal risk**

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

**2.8 Liquidity risk**

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

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**2. Risk management (continued)**

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

**Maturity**

**31 December 2021**

	<b>&lt;-1 year \$m</b>	<b>1-3 years \$m</b>	<b>3-5 years \$m</b>	<b>&gt;5 years \$m</b>	<b>Total \$m</b>
Fixed and floating rate debt securities	64.5	143.2	31.7	5.0	244.4
Syndicate loan to Lloyd's central fund	-	0.5	2.5	-	3.0
Derivative financial instruments	-	-	-	-	-
Cash at bank and in hand	28.1	-	-	-	28.1
Other Debtors	164.0	-	-	-	164.0
Other Creditors	(196.7)	-	-	-	(196.7)
<b>Total</b>	<b>59.9</b>	<b>143.7</b>	<b>34.2</b>	<b>5.0</b>	<b>242.8</b>

**31 December 2020**

	<b>&lt;-1 year \$m</b>	<b>1-3 years \$m</b>	<b>3-5 years \$m</b>	<b>&gt;5 years \$m</b>	<b>Total \$m</b>
Fixed and floating rate debt securities	79.6	60.9	53.0	23.7	217.2
Syndicate loan to Lloyd's central fund	-	-	3.2	-	3.2
Derivative financial instruments	-	-	-	-	-
Cash at bank and in hand	26.0	-	-	-	26.0
Other Debtors	125.3	-	-	-	125.3
Other Creditors	(134.6)	-	-	-	(134.6)
<b>Total</b>	<b>96.3</b>	<b>60.9</b>	<b>56.2</b>	<b>23.7</b>	<b>237.1</b>

# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **YEAR ENDED 31 DECEMBER 2021**

#### **2. Risk management (continued)**

##### **2.9 Capital management**

###### *Capital framework at Lloyd's*

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of syndicate 3623 is not disclosed in these financial statements.

###### *Lloyd's capital setting process*

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR to ultimate). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operate on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies capital uplift to the member's capital requirement, known as the Economic Capital Assessment ('ECA'). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2021 was 35% (2020: 35%) of the member's SCR to ultimate.

###### *Provision of capital by members*

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**3. Segmental analysis**

<b>2021</b>	<b>Life, accident and health \$m</b>	<b>Reinsurance \$m</b>	<b>Market Facilities \$m</b>	<b>Unallocated \$m</b>	<b>Total \$m</b>
Gross premiums written	71.4	42.5	198.2	-	312.1
Net premiums written	62.2	39.9	55.0	-	157.1
Gross earned premiums	65.3	42.4	166.8	-	274.5
Outward reinsurance premiums earned	(7.9)	(2.9)	(121.4)	-	(132.2)
Earned premiums, net of reinsurance	57.4	39.5	45.4	-	142.3
Gross claims	(31.0)	(2.5)	(122.1)	-	(155.6)
Reinsurers share	5.3	2.1	111.4	-	118.8
Claims incurred, net of reinsurance	(25.7)	(0.4)	(10.7)	-	(36.8)
Operating expenses before foreign exchange	(29.4)	(7.2)	(33.9)	-	(70.5)
Technical result before net investment income and foreign exchange	2.3	31.9	0.8	-	35.0
Loss on foreign exchange	-	-	-	(3.1)	(3.1)
Net investment income	-	-	-	0.6	0.6
<b>Profit/(loss) for the financial year</b>	<b>2.3</b>	<b>31.9</b>	<b>0.8</b>	<b>(2.5)</b>	<b>32.5</b>
Claims ratio	45%	1%	23%	-	26%
Expense ratio	51%	18%	75%	-	49%
Combined ratio	96%	19%	98%	-	75%

The expense ratios shown above are calculated excluding any profit or loss on foreign exchange. The reinsurance segment above includes reinsurance business with Beazley's US admitted insurance company, BICI. BICI writes predominantly specialty lines business.

All business was concluded in the UK.

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**3. Segmental analysis**

<b>2020</b>	<b>Life, accident and health \$m</b>	<b>Reinsurance \$m</b>	<b>Market Facilities \$m</b>	<b>Unallocated \$m</b>	<b>Total \$m</b>
Gross premiums written	51.1	44.1	133.4	-	228.6
Net premiums written	46.0	42.7	37.0	-	125.7
Gross earned premiums	43.3	45.5	95.1	-	183.9
Outward reinsurance premiums earned	(4.6)	(1.0)	(67.8)	-	(73.4)
Earned premiums, net of reinsurance	38.7	44.5	27.3	-	110.5
Gross claims	(29.1)	(65.0)	(75.7)	-	(169.8)
Reinsurers share	6.4	15.6	67.5	-	89.5
Claims incurred, net of reinsurance	(22.7)	(49.4)	(8.2)	-	(80.3)
Operating expenses before foreign exchange	(19.5)	(8.8)	(21.3)	-	(49.6)
Technical result before net investment income and foreign exchange	(3.5)	(13.7)	(2.2)	-	(19.4)
Loss on foreign exchange	-	-	-	1.6	1.6
Net investment income	-	-	-	8.8	8.8
<b>(Loss)/profit for the financial year</b>	<b>(3.5)</b>	<b>(13.7)</b>	<b>(2.2)</b>	<b>10.4</b>	<b>(9.0)</b>
Claims ratio	59%	111%	30%		73%
Expense ratio	50%	20%	78%		45%
Combined ratio	109%	131%	108%		118%

The expense ratios shown above are calculated excluding any profit or loss on foreign exchange. The reinsurance segment above includes reinsurance business with our US admitted insurance company, BICI. BICI writes predominantly specialty lines business.

All business was concluded in the UK.

**4. Net operating expenses**

	<b>2021 \$m</b>	<b>2020 \$m</b>
Acquisition costs**	73.2	51.5
Change in deferred acquisition costs	(9.4)	(9.5)
Administrative expenses	14.6	12.4
Reinsurance commissions and profit participation	(7.9)	(4.8)
	<b>70.5</b>	<b>49.6</b>

\*\*Brokerage and commissions on direct business written was \$54.2 (2020: \$27.4).

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

Administrative expenses include:

	<b>2021</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>
Auditor's remuneration:		
Fees payable to the syndicate's auditor for the audit of these annual accounts	106.3	79.3
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	118.6	103.1
Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to \$0.5m (2020: \$0.6m).		

**5. Staff costs**

The Syndicate and its managing agent have no employees. All staff are employed by Beazley Management Limited, with the majority of these costs incurred in sterling.

The Syndicate did not directly incur staff costs during the year (2020: nil). The following amounts were recharged to the syndicate in respect of staff costs:

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
Wages and salaries	5.5	5.3
Short-term incentive payments	2.6	1.1
Social security costs	1.4	1.1
Pension costs	1.3	1.0
	<u>10.8</u>	<u>8.5</u>

**6. Emoluments of the directors of Beazley Furlonge Limited**

The directors of Beazley Furlonge Limited, excluding the active underwriter, received the following aggregate remuneration charged to syndicate 3623 and included within net operating expenses:

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
Emoluments and fees	0.3	0.3
	<u>0.3</u>	<u>0.3</u>

**7. Active underwriter's emoluments**

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to syndicate 3623 was \$143,431 (2020: \$46,336).

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**8. Net investment income**

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
Interest and dividends on financial investments at fair value through profit or loss	4.2	6.0
Realised gains on financial investments at fair value through profit or loss	0.8	1.3
Unrealised gains on financial investments at fair value through profit or loss	1.3	3.2
Realised losses on financial investments at fair value through profit or loss	(1.0)	(0.3)
Unrealised losses on financial investments at fair value through profit or loss	(4.6)	(1.3)
<b>Investment income from financial investments</b>	<b>0.7</b>	<b>8.9</b>
Investment management expenses	(0.1)	(0.1)
<b>Total net investment income</b>	<b>0.6</b>	<b>8.8</b>

**9. Financial assets and liabilities**

	<b>Market value</b>		<b>Cost</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Financial assets at fair value</b>				
Fixed and floating rate debt securities:				
– Government issued	153.8	87.9	154.0	86.0
– Corporate bonds	-	-	-	-
– Investment grade credit	90.6	129.3	90.8	127.1
– High yield	-	-	-	-
– Senior secured loans	-	-	-	-
Syndicate loan to Lloyd’s central fund	3.0	3.2	3.1	3.2
<b>Total fixed and floating debt Lloyd’s central fund</b>	<b>247.4</b>	<b>220.4</b>	<b>247.9</b>	<b>216.3</b>
Equity funds	-	-	-	-
Hedge funds	-	-	-	-
Illiquid credit assets	-	-	-	-
<b>Total capital growth</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total financial investments at fair value through profit or loss</b>	<b>247.4</b>	<b>220.4</b>	<b>247.9</b>	<b>216.3</b>
Derivative financial instruments	-	-	-	-
<b>Total financial asset at fair value</b>	<b>247.4</b>	<b>220.4</b>	<b>247.9</b>	<b>216.3</b>
<b>Financial liabilities</b>				
Derivative financial instruments	-	-	-	-

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**9. Financial assets and liabilities (continued)**

**Fair value measurement**

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

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

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

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

The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on non-active markets, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 2. The syndicate uses prices and inputs that are current as of the measurement date for valuation of these instruments. The syndicate has one level one asset, syndicate loans to Lloyd's central contributions (which is measured using a discounted cash flow model).

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

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

<b>2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Fixed and floating rate debt securities:				
– Government issued	153.8	-	-	153.8
– Corporate bonds	-	-	-	-
– Investment grade credit	60.5	30.1	-	90.6
Syndicate loan to Lloyd's central fund	-	-	3.0	3.0
<b>Total financial assets at fair value</b>	<b>214.3</b>	<b>30.1</b>	<b>3.0</b>	<b>247.4</b>

\*The investment portfolio above contains \$23.2m of short terms deposits separately disclosed in the cash and cash equivalents note (note 11).

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**9. Financial assets and liabilities (continued)**

<b>2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Fixed and floating rate debt securities:				
- Government issued	87.9	-	-	87.9
- Corporate bonds	-	-	-	-
- Investment grade credit	47.2	82.1	-	129.3
Syndicate loan to Lloyd's central fund	-	-	3.2	3.2
<b>Total financial assets at fair value</b>	<b>135.1</b>	<b>82.1</b>	<b>3.2</b>	<b>220.4</b>

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

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

The group determines whether transfers have occurred between levels in the fair value hierarchy by assessing categorisation at the end of the reporting period.

The following transfers between levels 1 & 2 for the period ended 31 December 2021 reflect the level of trading activities including frequency and volume derived from market data obtained from an independent external valuation tool.

	<b>Level 1</b>	<b>Level 2</b>
	<b>\$m</b>	<b>\$m</b>
<b>31 December 2021 versus 31 December 2020 transfer from level 2 to 1</b>		
- Corporate bonds - investment grade	20.7	(20.7)
	<b>Level 1</b>	<b>Level 2</b>
	<b>\$m</b>	<b>\$m</b>
<b>31 December 2021 versus 31 December 2020 transfer from level 1 to 2</b>		
- Corporate bonds - investment grade	(8.8)	8.8

**10. Other debtors**

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
Amounts due from syndicate 2623	161.4	123.8
Sundry debtors including taxation	2.6	1.5
<b>Total other debtors</b>	<b>164.0</b>	<b>125.3</b>

above amounts are due within one year.

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**11. Cash and cash equivalent**

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
Cash at bank and in hand	28.1	26.0
Short term deposits	23.2	6.0
<b>Total other debtors</b>	<b>51.3</b>	<b>32.0</b>

**12. Technical provisions**

	<b>Provision for unearned premium \$m</b>	<b>Claims outstanding \$m</b>
<b>Gross technical provisions</b>		
As at 1 January 2021	99.4	370.5
Movement in the provision	37.6	76.8
Exchange adjustments	(0.7)	(3.1)
<b>As at 31 December 2021</b>	<b>136.3</b>	<b>444.2</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2021	50.6	135.0
Movement in the provision	22.8	83.3
Exchange adjustments	(0.2)	(2.7)
<b>As at 31 December 2021</b>	<b>73.2</b>	<b>215.6</b>
<b>Net technical provisions</b>		
As at 1 January 2021	48.8	235.5
<b>As at 31 December 2021</b>	<b>63.1</b>	<b>228.6</b>

	<b>Provision for unearned premium \$m</b>	<b>Claims outstanding \$m</b>
<b>Gross technical provisions</b>		
As at 1 January 2020	54.0	281.4
Movement in the provision	44.7	84.4
Exchange adjustments	0.7	4.7
<b>As at 31 December 2020</b>	<b>99.4</b>	<b>370.5</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2020	21.1	63.3
Movement in the provision	29.5	70.5
Exchange adjustments	-	1.2
<b>As at 31 December 2020</b>	<b>50.6</b>	<b>135.0</b>
<b>Net technical provisions</b>		
As at 1 January 2020	32.9	218.1
<b>As at 31 December 2020</b>	<b>48.8</b>	<b>235.5</b>

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**12. Technical provisions (continued) Gross**

**Claims Development**

	2011 <sup>ae</sup>	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
		%	%	%	%	%	%	%	%	%	%	
12 months		65.0	68.9	66.7	67.4	59.0	56.1	60.8	63.9	82.6	70.7	
24 months		71.5	69.0	67.3	70.6	61.4	55.5	58.9	73.5	81.8		
36 months		70.0	69.0	73.7	62.8	68.7	54.8	47.5	60.7			
48 months		83.9	71.6	75.8	62.9	73.2	56.4	42.2				
60 months		78.0	67.4	78.0	66.1	73.1	51.8					
72 months		76.0	66.3	76.4	68.5	70.9						
84 months		78.8	66.6	76.5	70.0							
96 months		75.2	68.7	72.9								
108 months		74.4	66.2									
120 months		77.5										
<b>Total ultimate losses (\$m)</b>	<b>188.6</b>	<b>136.0</b>	<b>107.5</b>	<b>149.7</b>	<b>161.4</b>	<b>187.1</b>	<b>81.6</b>	<b>39.1</b>	<b>96.0</b>	<b>193.7</b>	<b>215.1</b>	<b>1,555.8</b>
Less paid claims (\$m)	(181.1)	(125.1)	(94.6)	(139.9)	(134.0)	(155.1)	(61.1)	(28.5)	(30.8)	(34.0)	(2.0)	(986.2)
Less unearned portion of ultimate losses (\$m)	-	-	-	-	-	-	-	-	(0.7)	(11.7)	(113.0)	(125.4)
<b>Gross claims liabilities (\$m)</b>	<b>7.5</b>	<b>10.9</b>	<b>12.9</b>	<b>9.8</b>	<b>27.4</b>	<b>32.0</b>	<b>20.5</b>	<b>10.6</b>	<b>64.5</b>	<b>148.0</b>	<b>100.1</b>	<b>444.2</b>

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**12. Technical provisions (continued) Net**

**Claims Development**

2011 ae	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total	
	%	%	%	%	%	%	%	%	%	%		
12 months	64.0	67.9	64.6	64.2	57.5	55.5	54.6	50.7	68.1	52.3		
24 months	68.5	68.4	65.8	67.0	59.9	55.2	53.8	64.1	69.7			
36 months	67.9	68.2	72.1	59.1	62.6	55.2	42.8	46.7				
48 months	73.3	69.3	72.3	58.0	65.7	54.7	36.7					
60 months	69.3	65.0	75.0	61.9	64.0	49.7						
72 months	66.1	62.8	73.4	62.1	61.6							
84 months	68.4	64.4	73.3	62.6								
96 months	65.7	66.3	69.6									
108 months	65.0	64.4										
120 months	67.6											
<b>Total ultimate losses (\$m)</b>	177.4	99.3	91.3	125.5	127.9	147.7	72.1	30.2	46.3	91.0	81.4	1090.1
Less paid claims (\$m)	(171.5)	(91.3)	(80.5)	(117.3)	(111.0)	(127.1)	(55.0)	(23.2)	(18.4)	(16.7)	(1.3)	(813.3)
Less unearned portion of ultimate losses (\$m)	-	-	-	-	-	-	-	-	(0.2)	(4.3)	(43.7)	(48.2)
<b>Net claims liabilities (\$m)</b>	5.9	8.0	10.8	8.2	16.9	20.6	17.1	7.0	27.7	70.0	36.4	228.6

**13. Creditors**

**Restated**

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
Creditors arising out of direct insurance operations	1.4	1.1
Creditors arising out of reinsurance operations	130.6	73.6
<b>Other Creditors</b>		
Net amount due to other group undertakings	73.7	75.8
Amount due to syndicate 5623	123.0	58.8
<b>Total Creditors</b>	<b>328.7</b>	<b>209.3</b>

The above other creditors balances are payable within one year.

In prior years premiums payable for reinsurance contracts in respect of cover for direct insurance had been classified as a creditor arising out of direct insurance operations. In order to present premiums payable for reinsurance contracts in line with the prevalent market practice, and in the absence of specific explicit guidance in the accounting standards, all premiums payable for reinsurance contracts are now classified in these financial statements as a creditor arising out of reinsurance operations. Prior year numbers have been restated to conform to current year presentation. As a result, creditors arising out of direct insurance operations has decreased from \$64.5M to \$1.1M and creditors arising out of reinsurance operations has increased from \$10.2M to \$73.6M.

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2021**

**14. Deferred acquisition costs**

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
Balance at 1 January	25.7	16.1
Change in deferred commission	8.9	10.0
Change in other deferred costs	0.5	(0.5)
Foreign exchange adjustments	(0.2)	0.1
<b>Balance at 31 December</b>	<b>34.9</b>	<b>25.7</b>

**15. Related party transactions**

The intercompany positions with syndicates not wholly owned by Beazley plc at 31 December 2021 are shown in the table below:

5623 is a special purpose syndicate. Syndicate 3623 cedes a significant portion of its market facility book to 5623.

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
Syndicate 5623	(123.0)	(58.8)

Beazley Furlonge Limited as the managing agent of the syndicate is responsible for settling intercompany balances with other managed syndicates and net amounts due to/from other related entities.

**16. Post balance sheet events**

Post the balance sheet date, Ukraine has been invaded by Russia which has resulted in war in Eastern Europe. We continue to monitor the situation carefully.

The following amounts are proposed to be transferred to members personal reserve funds.

	<b>2021</b>	<b>2020</b>
	<b>\$m</b>	<b>\$m</b>
2019 Year of account	29.5	-
2018 Year of account	-	24.9
	<b>29.5</b>	<b>24.9</b>

**17. Exchange Rates**

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

	2021		2020	
	Average	Year end spot	Average	Year end spot
Sterling	0.73	0.76	0.78	0.73
Canadian dollars	1.25	1.27	1.34	1.27
Euro	0.84	0.88	0.88	0.81

# **SYNDICATE 3623 MANAGING AGENT CORPORATE INFORMATION YEAR ENDED 31 DECEMBER 2021**

Beazley Furlonge Limited has been the managing agent of syndicate 3623 throughout the period covered by this report and the registered office is 22 Bishopsgate, London EC2N 4BQ.

## **Directors**

D L Roberts\* - Chairman  
A P Cox – Active Underwriter and Chief Executive Officer  
R Anarfi  
G P Blunden\*  
I Fantozzi  
N H Furlonge\*  
D A Horton (resigned 31/03/2021)  
C C W Jones (resigned 26/02/2021)  
S M Lake  
C LaSala\*  
L Santori\* (appointed 01/03/2021)  
R Stuchbery\*  
A S Pryde (resigned 31/05/2021)  
A J Reizenstein\*  
N Wall\* (appointed 01/02/2021)  
K W Wilkins\* (resigned 01/01/2022)  
\* Non-executive director.

## **Secretary**

C P Oldridge

## **Managing Agent's Registered Office**

22 Bishopsgate  
London  
United Kingdom  
EC2N 4BQ

## **Registered Number**

01893407

## **Auditor**

Ernst & Young LLP  
25 Churchill Place  
London  
E14 5EY

## **Banker**

Deutsche Bank AG  
Winchester House  
London  
1 Great Winchester Street  
EC2N 2DB