Accounts Disclaimer

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HISCOX

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2020

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Directors and administration
Hiscox Syndicates 33 and 6104

Managing agent:

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

Directors
R S Childs – Non Executive Chairman
A Dolphin (Appointed 1 April 2020)
C J Foulger – Non Executive
H A Hussain
H Kam
H C V Keeling – Non Executive
P A Lawrence
K J M Markham
B E Masojada
J R Musselle
C Nielsen (Appointed 12 January 2021)
R C Watson (Resigned 31 May 2020)
A C Winther – Non Executive

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

Managing agent's company number
02590623

Syndicates 33 and 6104:

Active underwriter
Syndicate 33 – P A Lawrence
Syndicate 6104 – A Dolphin

Bankers (Syndicate 33)
Lloyds Bank PLC
Citibank
Royal Bank of Canada
Northern Trust

Investment managers (Syndicate 33)
AllianceBernstein Limited
Wellington Management Company LLP
Fiera Capital Corporation

Registered auditors
PricewaterhouseCoopers LLP

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Report of the Directors of the managing agent
Hiscox Syndicate 33 annual accounts

The Directors of the managing agent present their report for Syndicate 33 for the year ended 31 December 2020.

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

Separate underwriting year accounts for the closed 2018 account of Syndicate 33 are included following these annual accounts.

Results

The result for Syndicate 33 in calendar year 2020 is a loss of $86.0 million (2019: loss of $24.9 million). The 2020 results were materially impacted by Covid-19 losses totalling $209.0 million, net of reinsurance, which more than offset the impact of a significant improvement in underlying profitability across insurance lines in particular. The Covid-19 losses primarily arose in the speciality division from contingency exposures. Covid-19 is an unprecedented event for the insurance industry and the effects of it as a loss event remain both ongoing and uncertain. In measuring the liabilities the Syndicate has therefore included an allowance for risk and uncertainties above the best estimate.

The Syndicate's key financial performance indicators during the year were as follows:

	2020 $m	2019 $m	% change
Gross premiums written	1,976.6	2,044.2	(3.3)
Gross premiums earned	2,003.3	1,958.0	2.3
Net premiums earned	1,018.0	968.0	5.2
Total recognised loss for the year	(86.0)	(24.9)	245.4
Claims ratio (%)	72	68	4
Commission ratio (%)	22	24	(2)
Expense ratio (%)	19	17	2
Combined ratio (%)	113	109	4

Principal activity

The principal activity of Syndicate 33 remains the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's of London and through the Lloyd's Brussels platform. Syndicate 33 is one of the largest composite Syndicates at Lloyd's, and has an A.M. Best syndicate rating of A (Excellent). Syndicate 33 underwrites a mixture of reinsurance, property, casualty and marine and energy business, as well as a range of specialty lines including contingency and terrorism risks. Syndicate 33 trades through the Lloyd's worldwide licences and rating. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from S&P and AA- (Very strong) rating from Fitch.

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

Geographical split of gross premiums written (%)

	2020	2019
UK	5	5
Europe	6	6
North America	67	65
Asia	4	3
Rest of the world	18	21

Geographical premiums written settlement currency (%)

	2020	2019
Sterling	12	11
Euro	5	1
US Dollar	77	83
Canadian Dollar	6	5

Review of the business

The result for the year was a loss of $86.0 million (2019: loss of $24.9 million). A breakdown of divisional performance is shown opposite.

Property

The division comprises property binding authorities principally focused on the USA, insuring household and small commercial risks, a product covering flood risk (FloodPlus), the big-ticket property and power and mining accounts (both USA and international). There has been some rate hardening off the back of successive years of catastrophe losses, including the most active hurricane season on record in 2020. Attritional losses,

Divisional performance

Division	2020 Gross premiums written $m	2020 Profit/(loss) $m	2019 Gross premiums written $m	2019 Profit/(loss) $m
Reinsurance	411.3	(33.8)	509.7	(43.5)
Property	532.2	16.5	569.5	(39.0)
Aerospace and specialty	331.9	(107.3)	342.6	20.5
Marine and energy	290.9	13.7	229.3	38.7
Casualty	347.8	27.9	320.3	(20.4)
Art and private client	62.5	(3.0)	72.8	18.8
Total	1,976.6	(86.0)	2,044.2	(24.9)

however, have come down. These underlying improvements combined with prior year reserve releases and relatively moderate losses from the 2020 catastrophe events moved the division back into profit in 2020.

US flood remains a significant opportunity and our FloodPlus products use proprietary technology and advanced analytics to provide better cover at a fairer price for customers, backed by capacity from quota share partners. FloodPlus continues to generate substantial and growing quote volumes for retail and commercial customers.

Reinsurance

This division includes the Syndicate's non-marine property reinsurance business (catastrophe including retro, risk excess and pro-rata reinsurance), marine and aviation reinsurance, together with the specialty and casualty accounts. The Syndicate underwrites business for its own account and for third-party capital providers whether they are insurance companies, other syndicates (in particular Syndicate 6104) and capital market investors. The division experienced some contraction in gross and net premiums during the year as we continued to optimise the portfolio and shrink in lines where rate momentum has not kept pace with claims costs. The division was impacted by Covid-19 losses in 2020 which was the primary driver of an overall loss for the year.

Marine and energy

This division provides cover for marine hull, marine cargo, marine and energy liability and upstream energy risks. Improving conditions in the marine hull and cargo markets gave rise to strong premium growth. Upstream energy and marine liability remain competitive markets, reflecting the good returns that have been generated in these lines. The division was profitable in 2020 despite exposure to a number of large, single marine liability losses.

Aerospace and specialty

This division brings together a number of specialist lines such as terrorism, product recall, personal accident (PA), contingency and alternative risk. The terrorism market remains very competitive reflecting its previous profitable trading. However, the combination of sustained rate deterioration over a number of years and an increase in political violence claims has eroded some of its historically profitable returns. Following an initial large loss suffered by the product recall line in its first year in operation, the class has settled down and through a combination of excellent underwriting and premium growth finds itself in a strong position from both a reserves and profitability perspective. The PA market in Lloyd's has seen a combination of high commissions and attritional losses not resulting in any significant rate hardening. To that end, Hiscox London Market has been seeking to reduce premiums by exiting business that is not attractively priced. The alternative risk market is comprised of a number of risks that do not fall into any of the other lines we write. The division was heavily impacted by Covid-19-related contingency losses in 2020 which resulted in the division making a loss overall for the year, more than offsetting good underlying profitability.

Casualty

The division focuses on larger company cyber, directors and officers' (D&O) and general liability. The general liability book continues to grow well and trends look positive. We continued to grow general liability both organically and through consortia with other Lloyd's syndicates.

The D&O market has been challenging and we undertook a wholesale review of the business towards the end of 2018 and the start of 2019. At the same time the market began to turn and, following substantial rate increases, we have been able to exit those parts of the business that proved unprofitable, and further reduce our exposures, while continuing to grow premium in 2020. Cyber remains a key target class for Hiscox London Market and we were able to grow the account over the course of the year. The line was impacted by an industry-wide increase in ransomware losses but remains an attractive class to write.

The significant reunderwriting of parts of the casualty division over the previous few years is beginning to bear fruit and the division as a whole returned to profit in 2020.

Art and private client

This division includes the fine art account written in Lloyd's together with a small number of binding authorities specialising in the insurance of high-value houses, including stately homes, in the UK. Some of the business is sourced through the Hiscox regional offices in the UK and Europe. The division made a small loss in the year.

2021 and the future

We see opportunity for good growth in 2021 in classes where the strong stance taken by Lloyd's over several planning cycles has positively and materially impacted pricing, terms and conditions. We expect to continue to take advantage of the improving market environment, whille continuing to judiciously optimise the portfolio. Casualty lines in particular should see growth in 2021 on the back of substantial rate changes in 2020.

The Syndicate is well reserved, has a strong reinsurance programme with good security and a conservative investment portfolio.

Syndicate 33 stamp capacity will stay flat for the 2021 year of account at £1.7 billion.

Capital

One of the main advantages of trading through Lloyd's is the considerably lower capital ratios that are available due to the diversification of business written in Syndicate 33 and in Lloyd's as a whole. The size of the Syndicate is increased or reduced according to the strength of the insurance environment in its main classes. At present, Hiscox participates on 72.6% of the Syndicate, with the remainder being owned by non-aligned Names. Hiscox receives a fee and profit-related remuneration on the element it does not own.

Hiscox Syndicates Limited (HSL) internal capital model is used to set the Syndicate's capital. Syndicate capital is determined through the submission and agreement by Lloyd's of an ultimate solvency capital requirement (SCR) which is subject to an uplift determined by the Franchise Board to calibrate the capital required by Lloyd's. Lloyd's unique capital structure provides excellent financial security to policyholders and capital efficiency for members. This chain of security provides the financial strength that ultimately backs insurance policies written at Lloyd's and has three links:

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

Lloyd's also retains the right to request a contribution equal to 3% of capacity from the Syndicate.

Lloyd's works in co-operation with insurance regulators in the USA and other parts of the world to further strengthen the security of a Lloyd's policy. This has resulted in significant amounts of the Syndicate's funds being held in various trust funds.

We have determined that the Syndicate has sufficient levels of liquidity to meet its expected funding requirements. However, we put Names on notice that we may need to make a cash call, at some time in the future, to improve the Syndicate's working capital position.

Investment report

Investment income for Syndicate 33 was $44.0 million (2019: $45.8 million) equating to a return of 2.6 % (2019: 3.1%). These returns were broadly in line with expectations for the year. The Syndicate's invested assets totalled $1,617.0 million at 31 December 2020 (2019: $1,493.0 million).

Encouraged that the end of the pandemic is in sight given the arrival of vaccines, the assets of the most affected sectors of the economy surged on the expectation that economic activity may improve markedly in 2021. However, current market optimism is set against a background of surging virus cases, additional lockdowns and slowing economic activity in the short term. Bond markets produced better than expected returns in 2020. Government bond yields fell significantly and corporate bond spreads returned to levels seen before the pandemic, increasing the returns on bonds. Interest rates remain close to zero, or negative, across the developed world.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Syndicate is set out in note 4. In response to the UK's decision to leave the EU, HSL and Lloyd's made some necessary changes to its business. These will ensure continuity of cover to all its customers with European risks, as set out in note 18. Syndicate 33 is now using the Lloyd's Brussels platform to transact European Union risks. Lloyd's Brussels benefits

Years of account

	2015	2016	2017	2018	2019	2020	2021
Capacity (£m)	999	999	1,147	1,598	1,399	1,700	**1,700**
Capacity ($m)*	1,366	1,366	1,568	2,185	1,913	2,324	**2,324**
Hiscox ownership ($m)	725	725	834	1,161	1,015	1,233	**1,233**
Hiscox ownership (%)	72.6	72.6	72.7	72.7	72.6	72.6	**72.5**

*Converted at the closing rate at 31 December 2020.

from the market's financial strength through the Central Fund and has the same financial ratings as Lloyd's: A.M. Best A (Excellent), S&P A+ (Strong) and Fitch AA- (Very strong). he Company is authorised and regulated by the National Bank of Belgium and capitalised under Solvency II rules.

Directors' interests

None of the Directors of the managing agent who served during the year ended 31 December 2020 were underwriting Names at Lloyd's for the 2018, 2019, 2020 or 2021 years of account.

R S Childs – Non Executive Chairman
A Dolphin (Appointed 1 April 2020)
C J Foulger – Non Executive
H A Hussain
H Kam
H C V Keeling – Non Executive
P A Lawrence
K J M Markham
B E Masojada
J R Musselle
C Nielsen (Appointed 12 January 2021)
R C Watson (Resigned 31 May 2020)
A C Winther – Non Executive

Disclosure of information to the auditors

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

Annual General Meeting

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

In accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) (the 2008 Regulations) a Syndicate AGM was held in 2016 to appoint PricewaterhouseCoopers LLP (PwC) as the Syndicate's registered auditor. The 2008 Regulations contain provisions for the re-appointment of the Syndicate's registered auditor.

Lloyd's requirements allow managing agents to dispense with the requirement to hold a Syndicate AGM, providing certain criteria are met.

This year, we therefore give notice that:

- Hiscox Syndicates Limited does not propose to hold an AGM of the members of Syndicate 33 in 2021;
- PwC will be deemed to be re-appointed as the Syndicate's registered auditor pursuant to the 2008 Regulations;
- members may object to the matters set out above within 21 days of this notice.

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

If any objections are received, depending on the level or nature of such objections, we shall then consider whether to:

1. apply for Lloyd's consent not to hold an AGM. Lloyd's may give its consent subject to any such conditions and requirements as it may determine; or
2. convene an AGM.

By order of the Board

B E Masojada
Group Chief Executive
10 March 2021

Statement of managing agent's responsibilities
Hiscox Syndicate 33 annual accounts

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

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

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

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume the Syndicate will do so.

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

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

Independent auditors' report
To the members of Syndicate 33

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 33's syndicate annual accounts:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report and Accounts (the 'Annual Report'), which comprise: the balance sheet – assets and the balance sheet – liabilities as at 31 December 2020; the profit and loss account: technical account – general business, the profit and loss account: non-technical account – general business, the statement of changes in member's balances, and the statement of cash flows for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

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 at least 12 months from when the syndicate annual accounts are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Syndicate's ability to continue as a going concern.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing agent's report

In our opinion, based on the work undertaken in the course of the audit, the information given in the managing agent's report for the year ended 31 December 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts

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

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to revenue recognition and management override of controls. Audit procedures performed included:

- discussions with senior management involved in the risk and compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessment of any matters reported on the Syndicate's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- reading key correspondence with Lloyd's, the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- reviewing relevant meeting minutes including those of the Audit Committee;
- testing journal entries identified in accordance with our risk assessment;
- identifying and testing estimated premium income on a sample basis; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, 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.

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

Use of this report

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

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Robert Cordock
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 March 2021

Profit and loss account: technical account – general business
Hiscox Syndicate 33 annual accounts

Year ended 31 December 2020	Notes	2020 $000	2019 $000
Earned premiums, net of reinsurance			
Gross premiums written	5	1,976,588	2,044,180
Outward reinsurance premiums		(960,199)	(1,054,386)
Net premiums written		1,016,389	989,794
Change in the provision for unearned premiums:			
Gross amount		26,688	(86,176)
Reinsurers' share		(25,111)	64,362
Change in the net provision for unearned premiums		1,577	(21,814)
Earned premiums, net of reinsurance		1,017,966	967,980
Allocated investment return transferred from the non-technical account		43,997	45,827
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(1,195,605)	(1,033,227)
Reinsurers' share		641,492	526,314
Net claims paid		(554,113)	(506,913)
Change in the provision for claims:			
Gross amount		(204,059)	(749,550)
Reinsurers' share		27,696	602,434
Change in the net provision for claims		(176,363)	(147,116)
Claims incurred, net of reinsurance		(730,476)	(654,029)
Net operating expenses	7	(418,931)	(390,293)
Balance on the technical account for general business		(87,444)	(30,515)

The notes on pages 18 to 38 form an integral part of these annual accounts.

Profit and loss account: non-technical account – general business
Hiscox Syndicate 33 annual accounts

Year ended 31 December 2020	Notes	2020 $000	2019 $000
Balance on the technical account for general business		(87,444)	(30,515)
Investment income	6	41,005	40,585
Unrealised gains on investments		19,205	14,104
Investment expenses and charges	6	(5,443)	(8,862)
Unrealised losses on investments		(10,770)	–
Allocated investment return transferred to general business technical account		(43,997)	(45,827)
Foreign exchange gains		1,483	5,655
Loss for the financial year		(85,961)	(24,860)

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts, therefore no statement of other comprehensive income has been presented.

The notes on pages 18 to 38 form an integral part of these annual accounts.

Balance sheet – assets
Hiscox Syndicate 33 annual accounts

At 31 December 2020	Notes	2020 $000	2019 $000
Investments			
Financial investments	9	1,617,488	1,492,975
Reinsurers' share of technical provisions			
Provision for unearned premium	10	353,712	376,155
Claims outstanding	10, 13	2,068,386	2,025,106
		2,422,098	2,401,261
Debtors			
Debtors arising out of direct insurance operations	11	379,641	397,782
Debtors arising out of reinsurance operations	12	531,320	426,590
Other debtors		12,123	432
		923,084	824,804
Other assets			
Cash at bank and in hand		137,364	113,786
Prepayments and accrued income			
Accrued interest		7,706	8,197
Deferred acquisition costs	10	202,104	226,454
Other prepayments and accrued income		4,696	158
Total assets		5,314,540	5,067,635

The notes on pages 18 to 38 form an integral part of these annual accounts.

Balance sheet – liabilities
Hiscox Syndicate 33 annual accounts

At 31 December 2020	Notes	2020 $000	2019 $000
Capital and reserves			
Members' balances		(299,089)	(211,933)
Technical provisions			
Provision for unearned premium	10	880,612	898,655
Claims outstanding	10, 13	3,725,027	3,493,143
		4,605,639	4,391,798
Creditors			
Creditors arising out of insurance operations		30,980	17,233
Creditors arising out of reinsurance operations	14	790,617	734,371
Other creditors		108,341	35,070
		929,938	786,674
Accruals and deferred income	15	78,052	101,096
Total liabilities		5,314,540	5,067,635

The notes on pages 18 to 38 form an integral part of these annual accounts.

The syndicate annual accounts on pages 4 to 17 were approved by the Board of Hiscox Syndicates Limited on 10 March 2021 and were signed on its behalf by

B E Masojada
Group Chief Executive

Statement of changes in member's balances
Hiscox Syndicate 33 annual accounts

Year ended 31 December 2020	2020 $000	2019 $000
Members' balances brought forward at 1 January	(211,933)	(91,654)
Total recognised losses for the year	(85,961)	(24,860)
Receipt/(payment) of profit to members' personal reserve fund	2,577	(92,291)
Members' agent fees	(3,772)	(3,128)
Members' balances carried forward at 31 December	(299,089)	(211,933)

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

Statement of cash flows
Hiscox Syndicate 33 annual accounts

Year ended 31 December 2020	2020 $000	2019 $000
Net cash flows from operating activities		
Loss for the year	(85,961)	(24,860)
Increase in gross technical provisions	213,841	857,303
Increase in reinsurers' share of gross technical provisions	(20,837)	(676,047)
Increase in debtors	(86,589)	(201,785)
Increase in creditors	69,993	147,854
Movement in other assets/liabilities	58,839	(37,393)
Investment return	(43,997)	(45,827)
Net cash inflows from operating activities	105,289	19,245
Net cash flows from investing activities		
Purchase of equity and debt instruments	(1,726,770)	(1,829,825)
Sale of equity and debt instruments	1,631,512	1,869,138
Settlement of derivatives	1	(350)
Investment income received	35,063	31,699
Foreign exchange	(22,557)	(13,073)
Net cash flows from financing activities		
Distribution of profits	(1,195)	(95,419)
Net increase/(decrease) in cash and cash equivalents	21,343	(18,585)
Effect of exchange rates on cash and cash equivalents	2,235	(728)
Cash and cash equivalents at the beginning of the year	113,786	133,099
Cash and cash equivalents at the end of the year	137,364	113,786

Included within cash and cash equivalents are balances totalling $14.8 million (2019: $14.5 million) not available for immediate use by the Syndicate.

Notes to the accounts
Hiscox Syndicate 33 annual accounts

1 Basis of preparation

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

These annual accounts are presented in US Dollars, which is the Syndicate's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated. Some disclosure items, for example, Syndicate capacity, are presented in Sterling as it is denominated in this currency; US Dollar amounts are converted at the closing rate at 31 December 2020.

The Directors of the managing agent have prepared the annual accounts on a going concern basis. In adopting the going concern basis, the Syndicate's current and forecast solvency and liquidity positions for the next 12 months and beyond has been reviewed. As part of the consideration of the appropriateness of adopting the going concern basis, the Directors used scenario analysis to assess the robustness of the Syndicate's solvency and liquidity positions. The key judgements applied to the scenario analysis and stress testing is the likely time period of the lockdown periods, the size of any dispute on reinsurance recoveries and the size of the natural catastrophe event. An aggregated scenario such as this, and the sequence of events it involves, is considered to be remote and there are mitigating recovery actions that can be taken to restore the capital position to the Syndicate's target range.

Even in a severe downside scenario, no material uncertainty in relation to going concern has been identified. This is due to the Syndicate's strong capital and liquidity positions, which provide considerable resilience to these shocks, underpinned by the Syndicate's approach to risk management, which is described in note 4.

In addition to the above, Lloyd's require the Syndicate to perform an assessment of certain events on the financial position of the Syndicate by running specific realistic disaster scenarios (RDS). This is then translated into a capital requirement which the members must adhere to. It can be demonstrated that under all RDS scenarios, the Syndicate will continue to operate and any capital requirements can be provided for from the members' funds at Lloyd's (FAL).

In fact, no capital requirement is set for the Syndicate. Capital requirements are set at the member level and a member is not allowed to participate in the Syndicate if they have not met their capital requirement and the capacity of the Syndicate is adjusted down to reflect this.

The Syndicate benefits from being part of the Lloyd's capital structure, often referred to as the chain of security, which provides excellent financial security to policyholders and capital efficiency for members. The three elements that make up the Lloyd's capital structure are:

1. Syndicate assets – members' working capital
   All premiums received by the Syndicates are held in trust by the managing agents as the first resource for paying policyholders' claims and to fund regulatory deposits. Until all liabilities have been provided for, no profits can be released. Every year, the Syndicates' reserves for future liabilities are independently audited and subject to an actuarial review.
2. Funds at Lloyd's – members' capital deposited at Lloyd's
   Each member, whether corporate or individual, must provide sufficient capital to support their underwriting at Lloyd's. Managing agents are required to assess the solvency capital requirement (SCR) for each syndicate that they manage. This sets out how much capital the syndicate requires to cover its underlying business risks at a 99.5% confidence level.
3. Lloyd's central capital
   Lloyd's central assets, which include the Central Fund, are available, at the discretion of the Council of Lloyd's, to meet any valid claim that cannot be met from the resources of any member.

After making enquiries, the Directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence over a period of at least 12 months from the date of this report. For this reason, the Syndicate continues to adopt the going concern basis in preparing its financial statements.

The impact of Covid-19 has been factored into a number of the significant financial reporting judgements and estimates discussed in note 3, and has been reflected in the relevant sections of the financial statements, notably insurance liabilities.

1 Basis of preparation continued

The specific consideration relating to the current market conditions was also taken into account in the various sections of the risk management note.

2 Accounting policies

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

2(a) Premiums

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

Premiums written include an estimate of gross premiums written during the year. For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables, which are not known with certainty at the point of binding the policy. In determining the estimated premium, use is made of information provided by brokers and coverholders, past underwriting experience, the contractual terms of the policy and prevailing market conditions. Subsequently, adjustments to those estimates arise as updated information relating to those pricing variables becomes available, for example due to declarations obtained on binding authority contracts, reinstatement premium on reinsurance contracts or other policy amendments. Such adjustments are recorded in the period in which they are determined and impact gross written premiums in the income statements and premiums receivable from insureds and cedants recorded on the balance sheet.

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

Written premiums include payments made to Lloyd's Insurance Company S.A. (LIC) on 30 December 2020 for the transfer of all direct insurance policies (and related liabilities) written prior to 2019 for EU located risks or EU resident policyholders and which may have future premium or claims settlements, in accordance with Part VII of the Financial Services and Markets Act 2000; and reinsurance premium received from LIC on 30 December 2020 in return for the 100% quota share reinsurance agreement written by the syndicate and covering the liabilities transferred to LIC under the transaction referred to above.

The payments made to LIC and the reinsurance premium received from LIC are closely linked transactions and are intended to have a neutral impact on the income statement, hence both transactions are recorded with premiums written.

2(b) Unearned premiums

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

2(c) Acquisition costs

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

2(d) Claims

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

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

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

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

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

2(e) Unexpired risk

Provision is made for unexpired risks arising from general business where the expected value of the claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any acquisition costs deferred. The provision for unexpired risks is separated by business unit which are managed together.

2 Accounting policies continued

2(f) Financial assets and liabilities including loans and receivables

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

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

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

2(g) Investment return

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

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

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

2(h) Foreign currencies

The functional currency of the Syndicate is US Dollars. Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transactions. At the balance sheet date, monetary assets and liabilities are translated at the year-end rates of exchange. For the purpose of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

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

2(i) Taxation

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

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

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

2(j) Pension costs

The Hiscox Group operated both defined contribution and defined benefit pension schemes during the year under review.

The defined benefit scheme closed to future accrual with effect from 31 December 2006 and active members were offered membership of the defined contribution scheme from 1 January 2007. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity and has no further obligation beyond the agreed contribution rate. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a contractual basis. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The amount recognised on the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of plan assets. Plan assets include insurance contracts. The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit method. As the plan is closed to all future benefit accrual, each participant's benefits under the plan are based on their service to the date of closure or earlier leaving, their final pensionable earnings at the measurement date and the service cost is the expected administration cost during the year. Past service costs are recognised immediately in the income statement.

Movement in surpluses or deficits on the defined benefit scheme, that relate to Syndicate 33 are allocated equally between all constituted years of account. Pension contributions relating to Group recharges are charged to Syndicate 33 and included within net operating expenses.

2(k) Impairment of assets

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). For financial assets, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

2 Accounting policies

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

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

2(m) Reinsurers' commissions and profit participations
Reinsurers' commissions and profit participations, which include reinsurance profit commission and overriding commission, are treated as a contribution to expenses.

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

2(o) Cash at bank and in hand
This consists of cash at bank and in hand and deposits held at call with banks.

2(p) Functional currency and presentational currency
The functional and presentational currency of the Syndicate is US Dollars which is the currency of the primary economic environment in which the Syndicate operates.

3 Judgements and key sources of estimation uncertainty
In the application of the accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses during the year. In 2020, Covid-19 has had a significant impact on market conditions and the business. Estimates and their underlying assumptions continue to be 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. Where an estimate has been made in response to Covid-19, additional disclosure has been provided in the relevant note to provide context to the figures presented.

The following judgements, estimations and assumptions have had the most significant effect on amounts recognised in the annual accounts.

3(a) Valuation of general insurance contract liabilities
The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. The carrying amount of the liability is disclosed in the technical provisions note 10. For general insurance contracts estimates are made for the expected ultimate cost of claims notified at the balance sheet date and the cost of claims incurred but not yet reported. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided. The estimation of these claims is based on historical experience projected forward. The Syndicate's estimate of claims and expenses is mainly achieved through the application of a number of commonly accepted actuarial projection methodologies based on the following:
- the development of previously paid claims, where payments to date are extrapolated for each prior year;
- the development of claims based on seasonally adjusted exposure curves;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

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

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

The Syndicate tests the adequacy of its unearned premium liability by comparing current estimates of future claims and claims handling expenses attributable to the unexpired periods of policies at the balance sheet date which to the unearned premium liability net of acquisition costs. As set out in note 2(e), any deficiency is recognised in the income statement. The related deferred acquisition costs are first written down and any additional liability required is then recognised as an unexpired risk reserve (URR). In 2020, the Syndicate has recognised a loss due to this test and established an URR in relation to ongoing exposure to contingency business. The total estimate for URR gross of reinsurers' shares as at 31 December 2020 was $43.4 million (2019: nil). The total estimate for URR net of reinsurers' shares as at 31 December 2020 was $31.6 million (2019: nil). If this estimation were to prove inadequate, the unexpired risk reserve could be understated.

3(b) Premium recognition
The gross written premium is initially based on estimated premium income (EPI) of each contract. EPI estimates are based on information provided by the brokers, policyholders, coverholders, past underwriting experience and the contractual terms of the policy. The EPI estimates are reviewed on a regular basis. As the year of account closes, premiums are adjusted to match the actual signed premium. Premiums in respect of insurance contracts underwritten under binding authorities are booked as the underlying contracts incept; a straight-line basis is selected for this inception pattern. Premiums are earned on a straight-line basis over the life of each contract.

3 Judgements and key sources of estimation uncertainty

3(b) Premium recognition continued

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.

Gross written premium includes an estimation for reinstatement premiums which is determined based on incurred losses held in the technical provisions.

3(c) Fair value of financial instruments

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

3(d) Pension costs

In light of the recharge for the defined benefit scheme, obligations are calculated and valued with reference to actuarial assumptions including mortality, inflation rates and discount rate, many of which can be subject to specific volatility.

4 Management of risk

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

The HSL Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the HSL Risk Committee. Ongoing compliance is monitored through an internal audit function, shared with other Hiscox Ltd subsidiaries, which has operational independence, a charter and clear upwards reporting structures back into the HSL Audit Committee and HSL Board.

The Syndicate is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity. The Syndicate's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is reasonably predictable.

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

HSL continues to monitor and respond to Covid-19, in particular the impact related to our operations, insurance claims, reinsurance assets and investments on capital and liquidity positions.

The principal sources of risk relevant to the Syndicate's operations and its annual accounts fall into four broad categories: insurance risk, financial risk, regulatory risk and operational risk.

Insurance risk

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

(i) Underwriting risk

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

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

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

The Syndicate's underwriters and HSL management consider underwriting risk at an individual contract level, and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors. To assist with the process of pricing and managing underwriting risk the Syndicate routinely performs a wide range of activities including the following:

- regularly updating the Syndicate's risk models;
- documenting, monitoring and reporting against the Syndicate's strategy to manage risk;
- developing systems that facilitate the identification of emerging issues promptly;
- utilising sophisticated computer modelling tools to simulate catastrophes and measure the resultant potential losses before and after reinsurance;
- monitoring legal developments and amending the wording of policies when necessary;
- regular monitoring of risk exposures across individual underwriting portfolios and known accumulations of risk;
- examining the aggregated exposures in advance of underwriting further large risks; and
- developing processes that continually factor market intelligence into the pricing process.

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

4 Management of risk

(i) Underwriting risk continued

review and auditing of the agencies. The Syndicate compiles estimates of losses arising from realistic disaster events using statistical models alongside input from its underwriters. They also reflect the areas that represent significant exposures for the Syndicate. The events are extreme and as yet untested, and as such estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodelled risks. This means that should a realistic disaster actually occur, the Syndicate's final ultimate losses could materially differ from those estimates modelled by management.

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

The Syndicate also manages underwriting risk by purchasing reinsurance. Reinsurance protection, such as excess of loss cover, is purchased to mitigate the effect of catastrophes and unexpected concentrations of risk. The scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market. The specific insurance risks accepted by the Syndicate fall broadly into the following main categories: reinsurance inwards, property and casualty. These specific categories are defined for risk review purposes only, as each contains risks specific to the nature of the cover provided. The following describes the policies and procedures used to identify and measure the risks associated with each individual category of business.

Reinsurance inwards

The Syndicate's reinsurance inwards acceptances are primarily focused on large property portfolios held by other insurance companies predominantly in North America and other developed economies. This business is characterised more by large claims arising from individual events or catastrophes than the high-frequency, low-severity attritional losses associated with certain other business written by the Syndicate. Multiple insured losses can periodically arise out of a single natural or man-made occurrence. The main circumstances that result in claims against the reinsurance inwards book are conventional catastrophes, such as earthquakes or storms, and other events including fires and explosions. The occurrence and impact of these events are very difficult to model over the short term which complicates attempts to anticipate loss frequencies on an annual basis. In those years where there is a low incidence of severe catastrophes, loss frequencies on the reinsurance inwards book can be relatively low.

Consequently, the frequency and severity of reinsurance inwards claims are related not only to the number of significant insured events that occur but also to their individual magnitude. If numerous catastrophes occurred in any one year, but the cedant's individual loss on each was below the minimum stated, then the Syndicate would have no liability under such contracts. Maximum gross line sizes and aggregate exposures are set for each type of programme.

The Syndicate writes reinsurance risks for periods of mainly one year so that contracts can be assessed for pricing and terms and adjusted to reflect any changes in market conditions.

Property risks

The Syndicate directly underwrites a diverse range of property risks. Property contracts cover fixed and moveable assets such as ships and other vessels, cargo in transit, energy platforms and installations, pipelines, satellites, commercial buildings, industrial plants and machinery, artwork, antiques, classic cars and jewellery. These assets are typically exposed to natural catastrophe, large loss events or attritional claims arising from conventional hazards such as collision, flooding, fire and theft.

For this reason the Syndicate accepts major property insurance risks for periods of mainly one year so that each contract can be repriced on renewal to reflect the continually evolving risk profile. Risks covered for periods exceeding one year are certain specialist lines such as marine and offshore construction projects which can typically have building and assembling periods of between three and four years.

Casualty risks

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

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

(ii) Reserving risk

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

The Syndicate's provision estimates are subject to regular and rigorous review by senior management from all areas of the business including independent actuaries. The final provision is approved by the HSL Board.

Booked reserves include a net margin of $174.6 million (2019: $121.5 million), representing 10.6% (2019: 7.9%) of net booked reserves. This is the margin above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy.

For the inwards reinsurance lines, there is often a time lag between the establishment and re-estimation of case reserves and reporting to the Syndicate. The Syndicate works closely with the reinsured to ensure timely reporting and also centrally analyses industry loss data to verify the reported reserves.

4 Management of risk

(ii) Reserving risk continued

Property insurance, such as those relating to subsea and other energy assets and the related business interruption risks, can also take longer than normal to settle. This is because of the length of time required for detailed subsea surveys to be carried out and damage assessments agreed together with difficulties in predicting when the assets can be brought back into full production. Casualty insurance claims may not be established for a number of years after the event where legal complexities occasionally develop regarding the insured's alleged omission or negligence. The length of time required to obtain definitive legal judgements and make eventual settlements exposes the Syndicate to a degree of reserving risk in an inflationary environment.

In addressing specific aspects of the impact of Covid-19 to HSL in relation to insurance risk, HSL focuses on:

- existing exposures, reinsurance coverage and, from a forward-looking perspective, the underwriting functions develop a projection of exposures taking into account changes to coverage including exclusions and incorporating rate changes; the assessment is undertaken on a portfolio-by-portfolio basis across HSL's geographic footprint;
- handling claims arising from Covid-19 in a fair, consistent and efficient way, and actively settling claims for event cancellation and abandonment, media and entertainment and other segments including travel.

Financial risk

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

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

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

(a) Reliability of fair values

The Syndicate has elected to carry all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy.

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

At 31 December 2020, the Syndicate held mortgage backed fixed income securities in its investment portfolio. Together with the Syndicate's investment managers, management continues to monitor the potential for any adverse development associated with this investment exposure through the analysis of relevant factors such as credit ratings, collateral, subordination levels and default rates in relation to the securities held.

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

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

The Syndicate's future results may be impacted, both positively and negatively, by the valuation adjustments applied to these securities.

(b) Interest rate risk

Fixed income investments represent a significant proportion of the Syndicate's assets and the HSL Board continually monitor investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Syndicate is able to underwrite or its ability to settle claims as they fall due.

The fair value of the Syndicate's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. If market interest rates rise, the fair value of the Syndicate's debt and fixed income investments would tend to fall and vice versa if credit spreads remained constant.

The Syndicate may also, from time to time, enter into interest rate future contracts in order to minimise the interest rate risk. The fair value of debt and fixed income assets in the Syndicate's balance sheet at 31 December is analysed below:

Table a)

	31 December 2020 % weighting	31 December 2019 % weighting
Government issued bonds and instruments	23	41
Government supported*	16	2
Asset backed securities	–	–
Mortgage backed instruments – agency	9	9
Mortgage backed securities – non agency	1	2
Corporate bonds	51	46

*Includes supranational debt, agency debt and federal deposit insurance corporation bank bonds.

4 Management of risk

(b) Interest rate risk continued

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase or decrease of 50 basis points in interest yields would result in a charge or credit to members' balances of $11.3 million (2019: $10.2 million).

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

(c) Credit risk

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

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

Covid-19 has caused economic disruption around the world with many businesses and individuals forced to alter, reduce or cease business activity in light of government lockdowns. As a result, the risk that counterparties fail to meet their financial obligations as they fall due, for whatever reason, has increased.

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

The Syndicate's maximum exposure to credit risk is represented by the carrying values of monetary assets and reinsurance assets included in the balance sheet at any given point in time. The Syndicate does not use credit derivatives or other products to mitigate maximum credit risk exposures on reinsurance assets, but collateral may be requested to be held against these assets.

The Syndicate structures the levels of credit risk accepted by placing limits on their exposure to a single counterparty, or groups of counterparties, and having regard to geographical locations. Such risks are subject to an annual or more frequent review. There is no significant concentration of credit risk with respect to loans and receivables, as the Syndicate has a large number of internationally dispersed debtors with unrelated operations. Reinsurance is used to contain insurance risk.

This does not, however, discharge the Syndicate's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year.

The HSL Board assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance. The financial analysis of reinsurers produces an assessment categorised by S&P rating (or equivalent when not available from S&P).

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

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

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

4 Management of risk

(c) Credit risk continued

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

Table b)

At 31 December 2020	AAA $000	AA $000	A $000	BBB and below $000	Total $000
Financial investments	217,858	572,029	545,881	281,720	1,617,488
Reinsurers' share of technical provisions: claims outstanding	274,781	330,336	1,321,849	141,420	2,068,386
Debtors: reinsurance recoverable	506	38,726	139,070	45,883	224,185
Cash at bank and in hand	–	5,204	132,160	–	137,364
Total	493,145	946,295	2,138,960	469,023	4,047,423
At 31 December 2019					
Financial investments	163,850	710,818	309,662	308,645	1,492,975
Reinsurers' share of technical provisions: claims outstanding	305,900	235,237	1,449,470	34,499	2,025,106
Debtors: reinsurance recoverable	2,426	32,037	134,469	8,639	177,571
Cash at bank and in hand	–	3,382	110,396	8	113,786
Total	472,176	981,474	2,003,997	351,791	3,809,438

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

At 31 December 2020 and 2019, the Syndicate held no material debt or fixed income assets that were past due or impaired beyond their reported fair values. For the current period and prior period, the Syndicate did not experience any material defaults on debt securities.

(d) Liquidity risk

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

The main focus of the investment portfolio is on high-quality, short-duration debt and fixed-income securities, and cash. There are no significant holdings of investments with specific repricing dates.

Notwithstanding the regular interest receipts and also the Syndicate's ability to liquidate these securities and the majority of its other financial instrument assets for cash in a prompt and reasonable manner, the contractual maturity profile of the financial assets and financial liabilities at 31 December was as follows:

4 Management of risk

(d) Liquidity risk continued

Table c)

At 31 December 2020	Less than one year $000	Between one and three years $000	Between three and five years $000	Over five years $000	Total $000
Financial investments	536,933	926,068	149,754	4,733	1,617,488
Reinsurers' share of technical provisions	780,714	573,156	559,674	154,842	2,068,386
Debtors	830,337	75,473	17,274	–	923,084
Cash at bank and in hand	137,364	–	–	–	137,364
Prepayments and accrued income	12,402	–	–	–	12,402
Technical provisions	(1,613,814)	(852,782)	(928,557)	(329,874)	(3,725,027)
Creditors	(737,250)	(137,641)	(55,047)	–	(929,938)
Accruals and deferred income	(443)	–	–	–	(443)
Total	(11,181)	541,325	(256,913)	(169,915)	(103,316)
At 31 December 2019					
Financial investments	443,293	795,506	102,997	151,179	1,492,975
Reinsurers' share of technical provisions	738,409	590,863	560,887	134,947	2,025,106
Debtors	745,516	63,926	15,362	–	824,804
Cash at bank and in hand	113,786	–	–	–	113,786
Prepayments and accrued income	8,355	–	–	–	8,355
Technical provisions	(1,474,587)	(836,890)	(897,074)	(284,592)	(3,493,143)
Creditors	(628,247)	(117,818)	(40,609)	–	(786,674)
Accruals and deferred income	(3,243)	–	–	–	(3,243)
Total	(56,718)	495,587	(258,437)	1,534	181,966

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

A significant proportion of the financial investments are in highly liquid assets which can be converted to cash at short notice to settle Syndicate liabilities as they fall due. The Directors have a reasonable expectation that the Syndicate has adequate resources to continue in operation for the foreseeable future.

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

Table d)

At 31 December 2020	2020 years	2019 years
Sterling	1.9	2.1
US Dollar	3.7	3.7
Euro	2.7	2.1
Canadian Dollar	1.9	1.9

(e) Currency risk

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

4 Management of risk

(e) Currency risk continued

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

Table e)

At 31 December 2020	US Dollar $000	Sterling $000	Euro $000	Canadian Dollar $000	Total $000
Financial investments	1,148,727	234,931	69,811	164,019	1,617,488
Reinsurers' share of technical provisions	2,083,401	246,201	33,049	59,447	2,422,098
Insurance and reinsurance receivables	661,010	231,083	(22,320)	41,188	910,961
Cash in hand and at bank	79,640	27,371	25,773	4,580	137,364
Other assets	154,640	49,993	6,152	15,844	226,629
Total assets	4,127,418	789,579	112,465	285,078	5,314,540
Technical provisions	(3,909,207)	(436,500)	(116,500)	(143,432)	(4,605,639)
Insurance and reinsurance payables	(590,671)	(175,740)	(17,748)	(37,438)	(821,597)
Other creditors	(91,416)	(85,141)	(3,146)	(6,690)	(186,393)
Total liabilities	(4,591,294)	(697,381)	(137,394)	(187,560)	(5,613,629)
Member's balances by currency	(463,876)	92,198	(24,929)	97,518	(299,089)
At 31 December 2019					
Financial investments	1,035,983	302,461	26,031	128,500	1,492,975
Reinsurers' share of technical provisions	2,141,343	157,533	48,512	53,873	2,401,261
Insurance and reinsurance receivables	622,031	197,846	(21,058)	25,985	824,804
Cash in hand and at bank	77,107	16,502	16,203	3,974	113,786
Other assets	170,757	45,832	4,819	13,401	234,809
Total assets	4,047,221	720,174	74,507	225,733	5,067,635
Technical provisions	(3,776,241)	(351,775)	(139,084)	(124,698)	(4,391,798)
Insurance and reinsurance payables	(589,658)	(149,263)	(18,750)	(29,003)	(786,674)
Other creditors	(48,960)	(44,486)	(55)	(7,595)	(101,096)
Total liabilities	(4,414,859)	(545,524)	(157,889)	(161,296)	(5,279,568)
Member's balances by currency	(367,638)	174,650	(83,382)	64,437	(211,933)

Sensitivity analysis

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

Table f)

	2020 year	2019 year
Sterling	(9,220)	(17,465)
Euro	2,493	8,338
Canadian Dollar	(9,752)	(6,444)

The impact on member's balances is symmetrical on a 10% weakening of the US Dollar.

Regulatory risk

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

4 Management of risk

Operational risk

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

Covid-19 has required HSL's ongoing focus on safeguarding the well-being of its employees and their families, serving its clients, and preserving operational continuity.

With the majority of employees working from home, HSL continues to support them through flexible working and the provision of mental health and well-being services. This has also meant that internal processes, capability of people and IT systems have been put to the test. HSL has adapted to the changes in the operational environment and business processes have continued to be carried out effectively and efficiently.

HSL demonstrated resilience in 2020, underscoring the benefits of its business model, disciplined risk management and ongoing investment in technology and infrastructure.

The measures HSL has implemented to adapt to Covid-19 have proven largely effective in addressing the relevant challenges and operational risks and some of these measures represent an acceleration of longer-term plans.

5 Segmental analysis

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

2020	Gross premiums written $000	Gross premiums earned $000	Gross claims incurred $000	Net operating expenses $000	Reinsurance balance $000	Underwriting profit/(loss) $000
Direct insurance						
Accident and health	36,079	39,678	(26,417)	(17,880)	5,770	1,151
Motor – third-party liability	45	42	228	(29)	43	284
Motor – other classes	–	–	–	–	–	–
Marine aviation and transport	212,270	187,363	(190,025)	(51,133)	47,524	(6,271)
Fire and other damage to property	791,475	807,149	(368,201)	(188,010)	(207,053)	43,885
Third-party liability	337,191	308,148	(184,654)	(53,455)	(54,945)	15,094
Credit and suretyship	171,459	179,183	(435,926)	(58,734)	157,896	(157,581)
	1,548,519	1,521,563	(1,204,995)	(369,241)	(50,765)	(103,438)
Reinsurance	428,069	481,713	(194,669)	(49,690)	(265,357)	(28,003)
Total	1,976,588	2,003,276	(1,399,664)	(418,931)	(316,122)	(131,441)

2019	Gross premiums written $000	Gross premiums earned $000	Gross claims incurred $000	Net operating expenses $000	Reinsurance balance $000	Underwriting profit/(loss) $000
Direct insurance						
Accident and health	44,762	48,997	(30,832)	(20,380)	(3,472)	(5,687)
Motor – third-party liability	3,274	2,804	(2,087)	(808)	(71)	(162)
Motor – other classes	14,066	12,823	(8,338)	(3,501)	(548)	436
Marine aviation and transport	215,287	202,997	(108,142)	(60,430)	(12,873)	21,552
Fire and other damage to property	825,014	797,344	(544,576)	(169,010)	(81,926)	1,832
Third-party liability	295,900	272,079	(246,927)	(60,110)	8,787	(26,171)
Credit and suretyship	125,846	111,014	(68,564)	(39,212)	3,819	7,057
	1,524,149	1,448,058	(1,009,466)	(353,451)	(86,284)	(1,143)
Reinsurance	520,031	509,946	(773,311)	(36,842)	225,008	(75,199)
Total	2,044,180	1,958,004	(1,782,777)	(390,293)	138,724	(76,342)

All premiums were concluded in the UK.

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

	2020 $000	2019 $000
United Kingdom	105,922	95,186
Other European Union member states	110,696	111,866
United States	1,333,890	1,179,248
Rest of the world	452,768	571,704
Total	2,003,276	1,958,004

6 Investment return

	2020 $000	2019 $000
Investment income		
Interest income on financial assets	32,977	34,962
Gains on realisation of investments	8,028	5,623
Total investment income	41,005	40,585
Investment expenses and charges		
Investment management expenses	(1,586)	(2,592)
Losses on realisation of investments	(3,857)	(6,270)
Total investment expenses and charges	(5,443)	(8,862)

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

	2020 $000	2019 $000
Average amount of Syndicate funds available for investment during the year:		
Sterling	279,492	263,645
Euro	56,250	67,941
US Dollar	1,187,036	1,125,472
Canadian Dollar	149,555	113,439
Total Syndicate funds available for investment	1,672,333	1,570,497

	2020 %	2019 %
Annual investment yield		
Sterling	3.1	1.8
Euro	0.3	0.5
US Dollar	2.7	3.6
Canadian Dollar	3.3	2.3
Total annual investment yield percentage	2.7	3.1

Syndicate funds include investments and cash.

7 Net operating expenses

	2020 $000	2019 $000
Brokerage and commissions	403,931	440,816
Other acquisition costs	44,047	40,742
Change in deferred acquisition costs	26,497	(1,691)
Administrative expenses	122,444	94,188
Member's standard personal expenses	28,558	25,615
Reinsurers' commissions and profit participations	(206,546)	(209,377)
Total	418,931	390,293

Brokerage and commissions on direct business written was $348.7 million (2019: $374.0 million).

Profit commission is charged by the managing agent at a standard rate of 12.5%. This calculation is subject to the operation of a two-year deficit clause. An additional 2.5% profit commission is charged if target levels of profit are achieved over a rolling seven-year period. Profit commission is disclosed within members' standard personal expenses.

Profit-related remuneration is charged at 5% on the profit of six major business areas. It is disclosed within administrative expenses.

Also included in administrative expenses is the charge for the Syndicate's share of the movement in the Group pension defined benefit deficit of $24.6 million (2019: $6.3 million deficit) calculated by the scheme actuary.

Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT).

7 Net operating expenses continued

	2020 $000	2019 $000
Auditors' remuneration		
Fees payable to the Syndicate's auditor for the audit of the syndicate annual accounts	352	333
Fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	104	100
Total	456	433

8 Staff costs

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

The Syndicate did not directly incur staff costs during the year (2019: nil). The following salary and related costs were recharged during the year:

	2020 $000	2019 $000
Wages and salaries	67,099	43,344
Social security costs and pension costs (excluding provision for pension deficit)	35,802	6,735
Total	102,901	50,079

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

	2020 $000	2019 $000
Directors' emoluments	2,149	1,928

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

	2020 $000	2019 $000
Underwriter's emoluments	566	665

9 Financial investments

	2020 Fair value $000	2020 Cost $000	2019 Fair value $000	2019 Cost $000
Debt securities and other fixed income securities	1,586,057	1,576,736	1,486,860	1,464,990
Shares and other variable yield securities and units in unit trusts	31,431	31,431	6,114	6,114
Derivative financial assets	–	–	1	–
Total	1,617,488	1,608,167	1,492,975	1,471,104

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

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

Fair value hierarchy

The Syndicate has classified its financial investments using the fair value hierarchy in accordance with the FRS 102.

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

9 Financial investments

Fair value hierarchy continued

2020	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Debt securities and other fixed income securities	450,828	1,135,229	–	1,586,057
Shares and other variable yield securities and units in unit trusts	–	–	31,431	31,431
Derivative financial assets	–	–	–	–
Total	450,828	1,135,229	31,431	1,617,488

2019	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Debt securities and other fixed income securities	565,875	920,985	–	1,486,860
Shares and other variable yield securities and units in unit trusts	–	–	6,114	6,114
Derivative financial assets	–	1	–	1
Total	565,875	920,986	6,114	1,492,975

The following table sets forth a reconciliation of opening and closing balances for financial instruments classified under level 3 of the fair value hierarchy:

	2020 $000	2019 $000
Balance at 1 January	6,114	–
Fair value gains or losses through profit and loss	–	–
Foreign exchange gain	198	–
Purchases	25,119	6,114
Settlements	–	–
Balance at 31 December	31,431	6,114
Unrealised gains and (losses) in the year on securities held at the end of the year	–	–

The Syndicate measures the fair value of its financial assets based on prices provided by custodians who obtain market data from numerous independent pricing services. The pricing services used by the custodian obtain actual transaction prices for securities that have quoted prices in active markets.

For those securities which are not actively traded, the pricing service uses common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

2020	Gross contract notional amount $000	Fair value of assets $000	Fair value of liabilities $000	Net balance sheet position asset/(liability) $000
Interest rate future contracts	7,040	–	(2)	(2)

2019	Gross contract notional amount $000	Fair value of assets $000	Fair value of liabilities $000	Net balance sheet position asset/(liability) $000
Interest rate future contracts	5,700	1	(1)	–

Interest rate future contracts

During 2020 and 2019, the Syndicate used Sterling, Euro and US Dollar government bond futures to informally hedge the interest rate risk on specific corporate bonds. The investment return in 2020 on these futures is disclosed in note 6.

10 Technical provisions

2020	Gross provisions $000	Reinsurance assets $000	Net $000
Claims incurred:			
Balance at 1 January	3,493,143	(2,025,106)	1,468,037
Over/under-provision in respect of prior claims and claim adjustment expenses	(108,161)	106,731	(1,430)
Expected cost of current year claims	1,507,825	(775,919)	731,906
Claims paid for claims settled in year	(1,195,605)	641,492	(554,113)
Effect of movements in exchange rates	27,825	(15,584)	12,241
Balance at 31 December	3,725,027	(2,068,386)	1,656,641
Claims reported and claims adjustment expenses	1,333,959	(641,703)	692,256
Claims incurred but not reported	2,347,633	(1,414,857)	932,776
Unexpired risk reserve	43,435	(11,826)	31,609
Balance at 31 December	3,725,027	(2,068,386)	1,656,641
Unearned premiums:			
Balance at 1 January	898,655	(376,155)	522,500
Premium written during the year	1,976,588	(960,199)	1,016,389
Premium earned during the year	(2,003,276)	985,310	(1,017,966)
Effect of movements in exchange rates	8,645	(2,668)	5,977
Balance at 31 December	880,612	(353,712)	526,900
Deferred acquisition costs:			
Balance at 1 January	226,454	(98,225)	128,229
Acquisition costs written	403,931	(186,527)	217,404
Acquisition costs earned	(430,428)	206,546	(223,882)
Effect of movements in exchange rates	2,147	597	2,744
Balance at 31 December	202,104	(77,609)	124,495

2019	Gross provisions $000	Reinsurance assets $000	Net $000
Claims incurred:			
Balance at 1 January	2,734,141	(1,417,810)	1,316,331
Over/under-provision in respect of prior claims and claim adjustment expenses	156,605	(191,452)	(34,847)
Expected cost of current year claims	1,626,172	(937,296)	688,876
Claims paid for claims settled in year	(1,033,227)	526,314	(506,913)
Effect of movements in exchange rates	9,452	(4,862)	4,590
Balance at 31 December	3,493,143	(2,025,106)	1,468,037
Claims reported and claims adjustment expenses	1,197,573	(525,445)	672,128
Claims incurred but not reported	2,295,570	(1,499,661)	795,909
Unexpired risk reserve	–	–	–
Balance at 31 December	3,493,143	(2,025,106)	1,468,037
Unearned premiums:			
Balance at 1 January	800,354	(307,404)	492,950
Premium written during the year	2,044,180	(1,054,386)	989,794
Premium earned during the year	(1,958,004)	990,024	(967,980)
Effect of movements in exchange rates	12,125	(4,389)	7,736
Balance at 31 December	898,655	(376,155)	522,500
Deferred acquisition costs:			
Balance at 1 January	220,809	(78,856)	141,953
Acquisition costs written	440,816	(227,835)	212,981
Acquisition costs earned	(439,125)	209,377	(229,748)
Effect of movements in exchange rates	3,954	(911)	3,043
Balance at 31 December	226,454	(98,225)	128,229

10 Technical provisions continued

The Syndicate has material exposure to losses arising out of Covid-19 and currently reserved $209.0 million, net of reinsurance for these claims. The Covid-19 losses primarily arose in the speciality division from contingency exposures. Covid-19 is an unprecedented event for the insurance industry and the effects of it as a loss event remain both ongoing and uncertain. The ultimate amounts of these claims are subject to a high degree of uncertainty which, combined with their total size, increases the level of uncertainty in the best estimate of the cost of future claim payments of the Syndicate significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. Consequentially, in measuring the liabilities, the Syndicate has included an allowance for risk and uncertainties that is materially above the best estimate commensurate with the level uncertainty of the claims at this stage of development. In determining the Covid-19-related net claims, the Syndicate estimates the reinsurers' share of the claims by applying a consistent set of assumptions with those in determining the gross claims, considering the individual wording of the reinsurance treaties, and estimating default risks.

11 Debtors arising out of direct insurance operations

	2020 $000	2019 $000
Amounts due from intermediaries		
Due within one year	344,498	362,609
Due after one year	35,143	35,173
Total	379,641	397,782

12 Debtors arising out of reinsurance operations

	2020 $000	2019 $000
Amounts due from intermediaries		
Reinsurance recoverable (due within one year)	224,184	177,571
Ceding insurers under reinsurance business (due within one year)	276,046	227,008
Ceding insurers under reinsurance business (due after one year)	31,090	22,011
Total	531,320	426,590

13 Claims development tables

The claims development tables below have been calculated by converting estimated claims and cumulative payments in Canadian Dollars, Sterling and Euros to US Dollars at the closing rate of exchange at 31 December 2020. The table is produced on a year of account basis. Some business is not off-risk after the first 12 months, therefore we would anticipate cumulative claims to increase in the second year as this business is earned.

Pure underwriting year Gross of reinsurance	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	**2020 $000**
Estimate of cumulative claims:										
At end of underwriting year one	585,596	549,633	367,429	397,926	404,999	506,779	1,134,755	987,586	1,090,424	**925,303**
One year later	762,916	642,992	527,318	541,174	605,808	926,831	1,403,725	1,676,390	1,732,814	
Two years later	747,688	579,644	439,182	527,722	603,341	857,011	1,475,916	1,645,533		
Three years later	763,936	552,372	391,128	488,204	599,842	882,473	1,393,247			
Four years later	748,401	537,340	381,394	482,261	580,279	893,733				
Five years later	733,773	527,108	365,087	485,964	590,577					
Six years later	702,929	518,563	358,284	482,597						
Seven years later	689,359	514,119	354,670							
Eight years later	680,078	496,570								
Nine years later	671,875									
Cumulative payments	(641,866)	(465,893)	(334,000)	(421,352)	(493,143)	(708,472)	(964,639)	(893,297)	(463,359)	**(203,425)**
Estimated balance to pay	30,009	30,677	20,670	61,245	97,434	185,261	428,608	752,236	1,269,455	721,878
Provision in respect of prior years										127,554
Total gross provision included in the balance sheet										3,725,027

13 Claims development tables continued

Pure underwriting year Net of reinsurance	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	**2020 $000**
Estimate of cumulative claims:										
At end of underwriting year one	416,344	333,594	280,557	291,097	289,982	297,783	352,159	376,551	394,493	**405,857**
One year later	515,999	437,541	430,166	420,584	462,010	596,988	501,922	673,528	770,583	
Two years later	495,322	402,675	360,640	410,123	476,325	557,004	531,297	634,328		
Three years later	499,028	366,983	326,341	369,503	479,189	566,316	531,285			
Four years later	495,450	355,672	312,294	371,458	460,966	568,935				
Five years later	489,060	352,641	301,756	380,105	467,741					
Six years later	471,535	354,135	295,293	379,474						
Seven years later	460,974	350,022	291,926							
Eight years later	443,024	339,249								
Nine years later	442,203									
Cumulative payments	(420,245)	(310,865)	(272,232)	(320,447)	(382,897)	(452,203)	(337,064)	(444,911)	(267,555)	**(80,261)**
Estimated balance to pay	21,958	28,384	19,694	59,027	84,844	116,732	194,221	189,417	503,028	**325,596**
Provision in respect of prior years										**113,740**
Total net provision included in the balance sheet										**1,656,641**

Prior year development has been further explained under the 'results' section of the report of the Directors of the managing agent.

14 Creditors arising out of reinsurance operations

	2020 $000	2019 $000
Amounts due from intermediaries		
Due within one year	**656,351**	604,787
Due after one year	**134,266**	129,584
Total	**790,617**	734,371

15 Accruals and deferred income

	2020 $000	2019 $000
Profit commission	**–**	2,809
Deferred reinsurance commission	**77,609**	98,225
Accrued expenses	**443**	62
Total	**78,052**	101,096

Profit commission accrued at 31 December is $5.6 million (2019: $2.8 million) and is included under 'other creditors' on the balance sheet and also disclosed in Note 16.

16 Related parties

Related companies

Hiscox Syndicates Limited (HSL) manages Syndicate 33 as well as Syndicate 3624 which purchases some reinsurance from Syndicate 33 on an arm's-length basis.

Syndicate 6104, also managed by HSL, is a limited tenancy capacity, Special Purpose Syndicate, that supports the underwriting of Syndicate 33 by providing reinsurance on an arm's-length basis for certain classes of catastrophe exposed reinsurance risks. Syndicate 33 receives an overriding commission and profit commission on the business ceded to Syndicate 6104.

HSL is a wholly owned indirect subsidiary of Hiscox Ltd which is incorporated in Bermuda and listed on the London Stock Exchange. HSL receives a fixed fee for each pure underwriting year. HSL also receives profit commission and profit-related remuneration as detailed in note 7.

16 Related parties

Related companies continued

Hiscox Dedicated Corporate Member Limited, a wholly owned indirect subsidiary of Hiscox Ltd, is a corporate member which owns capacity in all pure underwriting years of Syndicate 33.

Hiscox Underwriting Group Services Limited, a wholly owned indirect subsidiary of Hiscox Ltd, is an employment service company which employs all UK-based staff engaged in Syndicate 33 activities including underwriters, claims handlers, reinsurance staff and administrative staff. Hiscox Underwriting Group Services Limited charges a fee for the provision of these staff to Syndicate 33 on a no profit/no loss basis.

Hiscox Insurance Company (Bermuda) Limited, a wholly owned direct subsidiary of Hiscox Ltd, is a Class 4 insurer in Bermuda authorised by the Bermuda Monetary Authority. It supplies some risk modelling services to HSL. Syndicate 33 purchases a significant amount of reinsurance from Hiscox Insurance Company (Bermuda) Limited; such reinsurances are on an arm's-length basis and are in the interests of all the Names on the Syndicate.

Hiscox Insurance Company (Guernsey) Limited, a wholly owned direct subsidiary of Hiscox Ltd, is a non-life insurance company authorised by the Guernsey Financial Services Commission which predominantly underwrites specialist personal lines business worldwide. It purchases some reinsurance from Syndicate 33; such reinsurances are on an arm's-length basis and are in the interests of all the Names on the Syndicate.

Hiscox Underwriting Ltd, a wholly owned indirect subsidiary of Hiscox Ltd, is an FCA authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 33. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Underwriting Ltd.

Hiscox Agencies Limited, a wholly owned indirect subsidiary of Hiscox Ltd, is authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 33. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Agencies Limited.

Hiscox Inc., a wholly owned indirect subsidiary of Hiscox Ltd incorporated in USA (Delaware), is a US authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 33. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Inc..

Hiscox Insurance Services Inc., a wholly owned indirect subsidiary of Hiscox Ltd, is a US authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 33. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Insurance Services Inc..

Hiscox Assure SAS is a regulated French insurance intermediary subject to the supervision of the French Prudential Supervisory Authority ACPR (Autorité de contrôle prudentiel et de résolution) and Lloyd's Coverholder. Hiscox Assure SAS is duly authorised to conduct insurance intermediation activities in other Member States of the European Union and the European Economic Area. It places business with Syndicate 33. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Assure SAS.

Hiscox MGA Ltd, a wholly owned indirect subsidiary of Hiscox Ltd, is an FCA authorised non-life insurance intermediary and Lloyd's Coverholder. It places business with Syndicate 33. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox MGA Ltd.

Underwriting divisions

Hiscox Ltd and its subsidiaries organises its core underwriting activities into a number of underwriting divisions. Some of these divisions underwrite for multiple entities which are partly or wholly owned by Hiscox Ltd including Syndicate 33, and some also underwrite for entities not partly nor wholly owned by Hiscox Ltd. This integrated approach is aimed at maximising business opportunities by using combined knowledge to develop new products and markets. There are certain predetermined mechanisms for allocating certain types of insurance risks to these carriers which take into account the licences, business plans and reinsurance programmes of each carrier. These arrangements are structured to take full and proper account of the duties owed to the members of Syndicate 33 and to manage appropriately any potential conflicts of interest.

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

Balance sheet net assets and (liabilities) outstanding	2020 $000	2019 $000
Hiscox Syndicates Limited	(4,513)	(1,821)
Other HSL managed Syndicates	68,887	131,193
Hiscox Ltd subsidiaries (intermediary services)	52,467	24,216
Hiscox Ltd subsidiaries (insurance)	229,716	343,846
Hiscox Ltd subsidiaries (other)	(82,359)	(1,544)

16 Related parties

Related companies continued

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

Net income and (expenses) reflected in the profit and loss	2020 $000	2019 $000
Hiscox Syndicates Limited	(18,613)	(12,145)
Other HSL managed Syndicates	39,360	64,500
Hiscox Ltd subsidiaries (intermediary services)	(21,479)	(21,091)
Hiscox Ltd subsidiaries (insurance)	(121,172)	61,279
Hiscox Ltd subsidiaries (other)	(119,347)	(113,235)

Hiscox Syndicates Limited charged managing agent fees and profit commission to Syndicate 33 of $13.5 million (2019: $10.7 million) and $5.5 million (2019: nil) respectively.

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

17 Syndicate structure

The managing agent of the Syndicate is Hiscox Syndicates Limited whose immediate parent undertaking is Hiscox Holdings Limited, a company registered in England and Wales. The ultimate parent undertaking of the largest and smallest group of companies for which Group accounts are drawn up is Hiscox Ltd, Bermuda. Copies of Hiscox Ltd financial statements can be obtained from Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.

18 Part VII transfer

The United Kingdom ceased to be a member of the European Union on 31 January 2020. The transition period to 31 December 2020 is a period agreed in the UK-EU Withdrawal Agreement in which the UK was no longer a member of the EU but continued to be subject to EU rules and remained a member of the single market and customs union.

Hiscox implemented the Lloyd's Market solution of writing all new and renewal EEA business through Lloyd's Brussels since January 2019. Hiscox, as described below, implemented the Lloyd's Market solution for all legacy EEA business which is a Part VII of all legacy EEA business from Hiscox Syndicates to Lloyd's Brussels. This arrangement enables Hiscox to continue to write new EEA business and service our legacy EEA business.

On 30 December 2020, the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. (Lloyd's Europe), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% quota share reinsurance agreement whereby Lloyd's Europe 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 30 November 2020, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Europe, together with cash of $119.2 million. On the same date, under the reinsurance agreement, Lloyd's Europe reinsured the same risks back, together with an equal amount of cash of net $119.2 million. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement and no net impact on the balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the income statement presentation. Outstanding debtor and creditor balance in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

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

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Report of the Directors of the managing agent
Hiscox Syndicate 33 underwriting year accounts

The Directors of the managing agent present their report at 31 December 2020.

This report comprises the cumulative result to 31 December 2020 for the closed 2018 account of Syndicate 33.

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable accounting standards in the United Kingdom. The Syndicate continues to adopt the going concern basis in preparing the syndicate underwriting year accounts.

Principal activity and review of the business

2018 account

The 2018 account has closed with a result of 0.1% after all personal expenses (except members' agent's fees). The result after including members' agents fees was $0.9 million which will be settled by a cash call to the members on 15 June 2021.

There was a release of $3.5 million from the closed years of 2017 and prior representing approximately 0.47% of RITC brought forward at constant exchange rates.

The 2018 account picked up almost all of the Syndicate's reinsurance loss from the 2018 hurricanes (Florence, Michael), typhoons (Jebi, Trami) and Californian wildfire losses together with a share of the direct property loss from these events.

The Syndicate's capacity was £1,598.3 million ($2,077.7 million) and capacity utilisation was 69.8% when measured using the premium income monitoring rate of £1 = $1.37.

The 2018 account earned $41.5 million of investment income. The key driver of the investment return for the 2018 account is the performance of the investment portfolio in 2020 calendar year. The calendar year return was 2.7%.

2019 account

The market did not harden as much or as quickly as we anticipated in 2018, so we decided to reduce capacity by 12.5% from £1.6 billion to £1.4 billion in 2019. The product recall account was transferred from Syndicate 3624 for the 2019 year of account and the US property account was transferred from Syndicate 3624 to Hiscox MGA Limited which writes business on behalf of Syndicate 33. These changes better align capital base and management responsibility while simplifying the Syndicate's structure. Premium income is forecast to increase by approximately 4.5% on 2018 when measured at constant foreign exchange rates. Growth in gross premium was driven across many classes with the largest increases in casualty insurance together with the addition of the product recall account.

The 2019 account will pick up almost all of the reinsurance loss from the 2019 hurricane (Dorian) and typhoons (Faxai and Hagibis) together with a share of the direct property loss on Hurricane Dorian. It will also pick up a substantial proportion of the Syndicate's overall Covid-19-related losses which impacted a range of lines, contingency in particular.

The Syndicate's capacity is £1,399.2 million ($1,846.9 million) and capacity utilisation was 85.0% when measured using the premium income monitoring rate of £1 = $1.37.

We are forecasting a result in the range -11.5% to -1.5%. There remains uncertainty around the ultimate loss the Syndicate will suffer from the 2019 catastrophe events including Covid-19.

2020 account

For insurance classes in particular, the rate rises we were expecting in 2018 post Harvey, Irma and Maria started to be achieved in 2019, a trend that has further strengthened during 2020. In order to take advantage of these and to reflect the fact that premium volumes achieved in 2019 were more than those envisaged in the Syndicate business forecast, we increased the capacity for 2020 from £1.4 billion to £1.7 billion.

These rate improvements are necessary after the extended soft market. However, in some areas rates are still not reflective of the risk, and we have continued to grow selectively while reducing our exposure in areas where rates are inadequate. As a result premium income is forecast to decrease by approximately 1.2% on 2019 when measured at constant foreign exchange rates. This primarily reflects a reduction in reinsurance premiums, partially offset by growth across many insurance classes, particularly casualty.

The 2020 account will pick up a substantial proportion of the Syndicate's overall Covid-19-related losses which impacted a range of lines, contingency in particular. Alongside this the account will, to a lesser extent, be impacted by hurricanes Sally and Laura across reinsurance and direct property classes.

Principal activity and review of the business

2020 account continued

Capacity utilisation is forecast to be 71.6% when measured using the premium income monitoring rate of £1 = $1.37.

We are forecasting a result in the range -7.0% to 3.0%. There remains uncertainty around the ultimate loss the Syndicate will suffer from the 2020 catastrophe events, particularly Covid-19.

2021 account and the future

The Syndicate's capacity will stay broadly flat at £1.7 billion in 2021 which gives the Syndicate ample opportunity to take advantage of rising rates in a hardening market, whille continuing to judiciously optimise the portfolio.

In response to the UK's decision to leave the EU, HSL and Lloyd's made some necessary changes to its business. These will ensure continuity of cover to all its customers with European risks, as set out in note 13. Syndicate 33 is now using the Lloyd's Brussels platform to transact European Union risks. Lloyd's Brussels benefits from the market's financial strength through the Central Fund and has the same financial ratings as Lloyd's: A.M. Best A (Excellent), S&P A+ (Strong) and Fitch AA- (Very strong). The Company is authorised and regulated by the National Bank of Belgium and capitalised under Solvency II rules.

Syndicate capacity and ownership

Syndicate capacity and ownership is disclosed in Syndicate 33 annual accounts.

Directors' interests

The Directors of the managing agent and their interests are disclosed in Syndicate 33 annual accounts.

Disclosure of information to the auditors

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

By order of the Board

B E Masojada
Group Chief Executive
10 March 2021

Statement of managing agent's responsibilities
Hiscox Syndicate 33 underwriting year accounts

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the Syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same Syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

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

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

Independent auditors' report
To the members of Syndicate 33 2018 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, Syndicate 33's syndicate underwriting year financial statements for the 2018 year of account for the 36 months ended 31 December 2020 (the 'underwriting year financial statements'):

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2020 and of its profit for the 2018 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Hiscox Syndicate 33 underwriting year accounts, (the 'underwriting year accounts'), which comprise: the balance sheet as at 31 December 2020, the profit and loss account: technical account – general business and the profit and loss account: non-technical account – general business for the 36 months then ended; and the notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800, and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the underwriting year financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Emphasis of matter – basis of preparation

Without modifying our opinion, we draw attention to note 1 of the underwriting year financial statements, which describes the basis of preparation. In particular, as these underwriting year financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year financial statements. The underwriting year financial statements are prepared in accordance with a special purpose framework for the specific purpose as described in the 'use of this report' paragraph below. As a result, the underwriting year financial statements may not be suitable for another purpose.

Reporting on other information

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

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

With respect to the report of the Directors of the managing agent (the 'managing agent's report'), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) have been included.

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing agent's report

In our opinion, based on the work undertaken in the course of the audit, the information given in the managing agent's report for the year ended 31 December 2020 is consistent with the underwriting year financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the managing agent for the underwriting year financial statements

As explained more fully in the statement of managing agent's responsibilities, the managing agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2018 closed year of account. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error

Auditors' responsibilities for the audit of the underwriting year financial statements

Our objectives are to obtain reasonable assurance about whether the underwriting year financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these underwriting year financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to revenue recognition and management override of controls. Audit procedures performed included:

- discussions with senior management involved in the risk and compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessment of any matters reported on the Syndicate's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- reading key correspondence with Lloyd's, the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- reviewing relevant meeting minutes including those of the Audit Committee;
- testing journal entries identified in accordance with our risk assessment;
- identifying and testing estimated premium income on a sample basis; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the underwriting year financial statements. Also, 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.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the managing agent in respect of the Syndicate; or
- the underwriting year financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Robert Cordock
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 March 2021

Profit and loss account: technical account – general business
Hiscox Syndicate 33 underwriting year accounts

For the 36 months ended 31 December 2020	Notes	$000
Syndicate allocated capacity		2,185,139
Earned premiums, net of reinsurance		
Gross premiums written		1,913,617
Outward reinsurance premiums		(916,447)
Earned premiums, net of reinsurance		997,170
Reinsurance to close premium received, net of reinsurance	3	752,269
		1,749,439
Allocated investment return transferred from the non-technical account		41,494
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(1,210,919)
Reinsurers' share		657,953
Net claims paid		(552,966)
Change in provision for claims:		
Gross amount		(1,727,799)
Reinsurers' share		901,112
Change in the net provision for claims		(826,687)
Claims incurred, net of reinsurance		(1,379,653)
Net operating expenses	7	(414,005)
Balance on the technical account for general business		(2,725)

The notes on pages 49 to 53 form an integral part of these underwriting year accounts.

Profit and loss account: non-technical account – general business
Hiscox Syndicate 33 underwriting year accounts

For the 36 months ended 31 December 2020	Notes	$000
Balance on the technical account for general business		(2,725)
Investment income	6	40,700
Unrealised gains on investments		13,137
Investment expenses and charges	6	(7,811)
Unrealised losses on investments		(4,532)
Allocated investment return transferred to general business technical account		(41,494)
Foreign exchange gains		5,242
Profit for the 2018 closed year of account		2,517
Members' agents' fees advances		(3,373)
Amounts due from members as at 31 December 2020		(856)

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts, therefore no statement of other comprehensive income has been presented.

The notes on pages 49 to 53 form an integral part of these underwriting year accounts.

Balance sheet
Hiscox Syndicate 33 underwriting year accounts

2018 account at 31 December 2020	Notes	2018 year of account $000
Assets		
Investments		
Financial investments	8	752,111
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	3	905,678
Debtors		
Debtors arising out of direct insurance operations	9	1,580
Debtors arising out of reinsurance operations	10	198,847
Other debtors		(1,084)
		199,343
Other assets		
Cash at bank and in hand		61,009
Prepayments and accrued income		
Accrued income		3,683
Total assets		1,921,824
Liabilities		
Capital and reserves		
Members' balances		856
Reinsurance to close premium payable – gross amount	3	(1,733,694)
Creditors		
Creditors arising out of direct insurance operations		(19,405)
Creditors arising out of reinsurance operations	11	(128,217)
Other creditors	12	(42,082)
		(189,704)
Accruals and deferred income		718
Total liabilities		(1,921,824)

The notes on pages 49 to 53 form an integral part of these underwriting year accounts.

The underwriting year accounts were approved by the Board of Hiscox Syndicates Limited on 10 March 2021 and were signed on its behalf by

B E Masojada
Group Chief Executive

Notes to the accounts
Hiscox Syndicate 33 underwriting year accounts

1 Basis of preparation
These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, comprising Financial Reporting Standard 102 'The Financial Reporting Standard' applicable in the United Kingdom and the Republic of Ireland (FRS 102) as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Members participate on a Syndicate by reference to a year of account and each Syndicate year of account is a separate annual venture. These accounts relate to the 2018 year of account which has been closed by reinsurance to close at 31 December 2020. Consequently the balance sheet represents the assets and liabilities of the 2018 year of account at the date of closure. The underwriting account reflects the transactions for that year of account during the three-year period until closure. These accounts cover the three years from the date of inception of the 2018 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

2 Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the syndicate underwriting year accounts.

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

The accounting policies adopted are the same as those disclosed in Syndicate 33 annual accounts with the exception of:

2(d) Claims
Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy.

Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

The net reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all prior years of account reinsured therein.

The reinsurance to close contract transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year and prior years to the Names on the next open year in so far as they have not been provided for in these accounts. It gives the Names on the next open year the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

2(g) Investment return
The returns on financial investments arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

2(h) Foreign currencies
The functional currency of the Syndicate is US Dollars. Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transactions. At the balance sheet date, monetary assets and liabilities are translated at the year-end rates of exchange.

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

2(q) Operating expenses
Syndicate operating expenses are allocated to the year of account for which they are incurred. Where expenses are incurred on behalf of the Syndicate, by an agency company, these expenses are apportioned to the Syndicate using varying methods depending on the amount of work performed, resources used and the volume of business transacted, for that type of expense.

3 Reinsurance premium to close the 2018 and prior years of account

	Reported $000	IBNR $000	Total $000
Reinsurance to close premium received			
Gross reinsurance to close premium received	682,093	738,534	1,420,627
Reinsurance recoveries anticipated	(248,593)	(419,765)	(668,358)
Reinsurance to close premium receivable, net of reinsurance	433,500	318,769	752,269
Reinsurance to close premium payable			
Gross reinsurance to close premium payable	823,228	910,466	1,733,694
Reinsurance recoveries anticipated	(362,161)	(543,517)	(905,678)
Reinsurance to close premium payable, net of reinsurance	461,067	366,949	828,016

The reinsurance to close has been assumed by the following year of account of the Syndicate.

4 Analysis of underwriting result

	2017 and prior $000	2018 $000	Total $000
Technical account balance before allocated investment return and net operating expenses	2,415	367,371	369,786
Brokerage and commission on gross premium	(2,796)	(442,640)	(445,436)
Total	(381)	(75,269)	(75,650)

5 Segmental analysis

	Gross premiums written $000	Gross premiums earned $000	Gross premiums incurred $000	Net operating expenses $000	Reinsurance balance $000	Underwriting profit/(loss) $000
Accident and health	56,235	56,235	(32,729)	(24,217)	(628)	(1,339)
Motor – third-party liability	2,559	2,559	(1,797)	(774)	3	(9)
Motor – other classes	12,369	12,369	(10,157)	(3,641)	1,018	(411)
Marine aviation and transport	180,591	180,591	(100,240)	(60,496)	(6,169)	13,686
Fire and other damage to property	795,683	795,683	(476,799)	(181,311)	(106,842)	30,731
Third-party liability	239,303	239,303	(173,334)	(54,548)	(24,824)	(13,403)
Credit and suretyship	118,773	118,773	(77,602)	(46,567)	2,520	(2,876)
Reinsurance	508,105	508,105	(645,433)	(42,451)	109,181	(70,598)
Reinsurance to close	1,420,627	1,420,627	(1,420,627)	–	–	–
Total	3,334,245	3,334,245	(2,938,718)	(414,005)	(25,741)	(44,219)

6 Investment return

	2018 year of account $000
Investment income	
Interest income on financial assets	33,891
Gains on realisation of investments	6,809
Total investment income	40,700
Investment expenses and charges	
Investment management expenses	(1,971)
Losses on realisation of investments	(5,840)
Total investment expenses and charges	(7,811)

Investment return for the 2018 year of account is recognised in the 2018, 2019 and 2020 calendar years. The investment income and yield for these calendar years is disclosed in the investment return notes in each of the respective syndicate annual accounts.

7 Net operating expenses

The cumulative Syndicate expenses charged in the 2018 underwriting account were made up as follows:

	2018 year of account $000
Brokerage and commissions	445,502
Other acquisition costs	34,745
Members' standard personal expenses	26,716
Administrative expenses	104,060
Reinsurers' commissions and profit participations	(197,018)
Total	414,005

Profit commission is charged by the managing agent at a standard rate of 12.5%. This calculation is subject to the operation of a two-year deficit clause. An additional 2.5% profit commission has been charged as the target level of profit has been achieved over a rolling seven-year period. Where profit commission is charged, it is included within members' standard personal expenses within net operating expenses.

Profit-related remuneration, which comprises a 5% charge on the profit of six major business areas, is included within administrative expenses.

Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT).

	2018 year of account $000
Auditors' remuneration	
Fees payable to the Syndicate's auditor for the audit of the syndicate 2018 underwriting account	349
Fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	98
Total	447

8 Financial investments

	Fair value $000	Cost $000
Debt securities and other fixed income securities	752,111	747,690
Derivative financial assets	–	–
Derivative financial liabilities	–	–

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

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

9 Debtors arising out of direct insurance operations

	$000
Amounts due from intermediaries	1,580

10 Debtors arising out of reinsurance operations

	$000
Amounts due from intermediaries	
Reinsurance recoverable (due within one year)	106,988
Ceding insurers under reinsurance business (due within one year)	80,320
Ceding insurers under reinsurance business (due after one year)	11,539
Total	198,847

11 Creditors arising out of reinsurance operations

	$000
Amounts due from intermediaries	
Due within one year	102,977
Due after one year	25,240
Total	128,217

12 Other creditors

	$000
Amounts owed to fellow subsidiary of managing agent	41,707
Derivative financial liability	1
Other	374
Total	42,082

13 Part VII transfer

The United Kingdom ceased to be a member of the European Union on 31 January 2020. The transition period to 31 December 2020 is a period agreed in the UK-EU Withdrawal Agreement in which the UK was no longer a member of the EU but continued to be subject to EU rules and remained a member of the single market and customs union.

Hiscox implemented the Lloyd's Market solution of writing all new and renewal EEA business through Lloyd's Brussels since January 2019. Hiscox, as described below, implemented the Lloyd's Market solution for all legacy EEA business which is a Part VIIof all legacy EEA business from Hiscox Syndicates to Lloyd's Brussels. This arrangement enables Hiscox to continue to write new EEA business and service our legacy EEA business.

On 30 December 2020, the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. (Lloyd's Europe), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% quota share reinsurance agreement whereby Lloyd's Europe 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 30 November 2020, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Europe, together with cash of $119.2 million. On the same date, under the reinsurance agreement, Lloyd's Europe reinsured the same risks back, together with an equal amount of cash of net $119.2 million. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement and no net impact on the balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the income statement presentation. Outstanding debtor and creditor balance in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

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

Seven-year summary
Hiscox Syndicate 33 underwriting year accounts

Year of account	2012	2013	2014	2015	2016	2017	**2018**
Syndicate allocated capacity in £000	948,840	949,491	999,841	999,359	998,840	1,147,315	**1,598,258**
Syndicate allocated capacity in $000	1,208,538	1,209,367	1,273,497	1,272,884	1,272,223	1,519,389	**2,185,139**
Number of underwriting members	1,505	1,523	1,532	1,525	1,562	1,546	**1,551**
Net premiums net of brokerage in $000	537,599	492,642	465,182	494,464	553,210	411,279	**551,669**
Capacity utilised (%)	72	69	64	69	90	76	**67**
Net capacity utilised (%)	44	41	37	39	44	27	**25**

Results for an illustrative share of £10,000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	**2018 $000**
Gross premiums	11,946	11,082	10,390	11,365	14,867	13,051	**11,973**
Net premiums	7,956	7,491	6,868	7,557	8,978	6,561	**6,239**
Reinsurance to close from an earlier account	7,733	7,901	7,194	8,334	7,695	6,600	**4,707**
Net claims paid	(2,908)	(3,115)	(2,936)	(3,629)	(4,894)	(4,160)	**(3,460)**
Reinsurance to close	(7,692)	(7,284)	(6,705)	(7,398)	(7,563)	(6,541)	**(5,172)**
Profit/(loss) on exchange	47	31	522	359	(48)	37	**33**
Syndicate operating expenses	(2,694)	(2,437)	(2,470)	(2,619)	(2,987)	(2,625)	**(2,423)**
Names personal expenses	(521)	(549)	(543)	(563)	(368)	(175)	**(167)**
Balance on technical account before investment return	1,921	2,038	1,930	2,041	727	(303)	**(243)**
Investment return	214	152	236	228	227	304	**260**
Profit before members' agent's fees	2,135	2,190	2,166	2,269	954	1	**17**
Profit before members' agent's fees £000	1,676	1,718	1,701	1,782	749	1	**12**

Notes to the seven-year summary
1. The seven-year summary has been prepared from the audited accounts of the Syndicate.
2. Personal expenses have been stated at the amount which would be incurred pro-rata by Names writing the illustrative premium income in the Syndicate, irrespective of any minimum charge applicable. Personal expenses include managing agent fees, central fund contributions, Lloyd's subscriptions and profit commissions. These figures exclude members' agents' fees.
3. 'Capacity utilised' represents gross premiums as a percentage of the allocated capacity. 'Net capacity utilised' represents net premiums as a percentage of the allocated capacity. For these calculations, gross and net premiums are net of brokerage.
4. Profit commission has been calculated in accordance with the applicable agency agreements.
5. Premium figures and Syndicate operating expenses are gross of brokerage.
6. All years of account are presented using transactional rates of exchange, the functional and presentation currency of the underwriting year accounts changed from 1 January 2018, all years of account where the underwriting accounts have been presented in Sterling have been translated at the closing rate prevailing at 31 December 2018.

Chapter 3
Hiscox Syndicate 6104 annual accounts

55 Chapter 3
Hiscox Syndicate 6104
annual accounts

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Report of the Directors of the managing agent
Hiscox Syndicate 6104 annual accounts

The Directors of the managing agent present their report for Syndicate 6104 for the year ended 31 December 2020.

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

Separate underwriting year accounts for the closed 2018 account of Syndicate 6104 are included following these annual accounts.

Results

The result for Syndicate 6104 in calendar year 2020 is a profit of $36.9 million (2019: $64.9 million loss) as a result of prior year catastrophe reserve releases, particularly Typhoons Faxai and Hagibis. These releases more than offset the impact of Covid-19, totalling $20.4 million, net of reinsurance, through exposure to reinsurance of business interruption insurance. Covid-19 is an unprecedented event for the insurance industry and the effects of it as a loss event remain both ongoing and uncertain. In measuring the liabilities, the Syndicate has therefore included an allowance for risk and uncertainties above the best estimate. The ultimate amounts of these claims are subject to a great deal of uncertainty which, combined with their total size, increases the level of uncertainty in the actuarial best estimate of the Syndicate beyond the normal range of uncertainty for insurance liabilities at this stage of development. Consequently, the held management reserves for the Syndicate are materially above the actuarial best estimate such that the remaining downside uncertainty in the booked reserves is consistent with the normal range of uncertainty for insurance liabilities at this stage of development.

The Syndicate's key financial performance indicators during the year were as follows:

	2020 $m	2019 $m	% change
Gross premiums written	**40.8**	59.5	(31.3)
Gross premiums earned	**42.5**	57.0	(25.4)
Net premiums earned	**41.3**	56.1	(26.4)
Total recognised profit/(loss) for the year	**36.9**	(64.9)	(156.9)
Claims ratio (%)	**(13)**	195	(208)
Commission ratio (%)	**20**	21	(1)
Expense ratio (%)	**1**	1	–
Combined ratio (%)	**8**	217	(209)

Principal activity

The principal activity of Syndicate 6104 is the transaction of reinsurance business in the United Kingdom at Lloyd's of London.

The Syndicate has the following underwriting capacity:

Years of account	2015	2016	2017	2018	2019	2020	2021
Capacity (£m)	64.9	55.5	54.4	55.8	55.0	44.4	**22.3**
Capacity ($m)*	88.7	75.9	74.5	76.3	75.2	60.7	**30.5**

*Converted at the closing rate at 31 December 2020.

None of the capacity of the Syndicate is provided by the Hiscox Group.

Principal activity continued

Syndicate 6104 trades through the Lloyd's worldwide licences and rating. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from S&P and AA- (Very strong) from Fitch. The geographical and currency split of its business is shown below:

Geographical split of gross premiums written (%)

	2020	2019
UK	1	–
Europe	2	1
North America	68	64
Asia	1	–
Rest of the world	28	35

Geographical premiums written settlement currency (%)

	2020	2019
Sterling	15	21
Euro	5	4
US Dollar	78	73
Canadian Dollar	2	2

Review of the business

Special Purpose Syndicate 6104 (Syndicate 6104) was established for the 2008 year of account to provide quota share reinsurance to Syndicate 33's excess of loss property catastrophe reinsurance account. Since the 2019 year of account it has also provided quota share reinsurance to Syndicate 33's cyber accounts.

Syndicate 6104 pays a fee and profit commission to Syndicate 33 for the business ceded. In addition, HSL charges a fee of 0.5% of capacity to Syndicate 6104 from which it must meet all of its Syndicate expenses.

The Syndicate operates like a normal syndicate in that upon closure of the account at 36 months the assets and liabilities are transferred to the next year of account through the RITC process. There are however certain differences, the most significant of which is that the capacity, which is all provided by third-party capital providers, operates on a limited tenancy basis. Syndicate 6104 only writes one contract per year, a reinsurance of Syndicate 33. This contract operates on a funds withheld basis with Syndicate 6104 credited interest on the balance owing by Syndicate 33.

The portfolio is underwritten by the Syndicate 33 reinsurance underwriting team and includes exposures from all territories around the world. Due to the nature of the business, the Syndicate is likely to produce a volatile operating performance. A small amount of very high level attachment US windstorm and US earthquake industry loss warranty retrocession protection was purchased with the intention of bringing the US windstorm and US earthquake net realistic disaster scenario (RDS) percentages in line with those of the other main exposures.

The cession from Syndicate 33 reduced to 22.5% in 2020 (2019: 28%) reflecting a reduction in support from third-party names and a resulting reduction in stamp capacity. As a consequence premium income decreased to $40.8 million (2019: $59.5 million).

The Syndicate made a profit of $36.9 million as a result of prior year catastrophe reserve releases, particularly Typhoons Faxai and Hagibis, more than offsetting the impact of Covid-19 which drove losses through exposure to reinsurance of business interruption insurance.

Capital

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

HSL internal capital model has been used to set the Syndicate's capital. Syndicate capital is determined through the submission and agreement by Lloyd's of an ultimate Solvency Capital Requirement (SCR) which is subject to an uplift determined by the Franchise Board to calibrate the capital required by Lloyd's. Lloyd's unique capital structure provides excellent financial security to policyholders and capital efficiency for members. This chain of security provides the financial strength that ultimately backs insurance policies written at Lloyd's and has three links:

1. all premiums received by syndicates are held in trust as the first resource for paying policyholders' claims;
2. every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where

syndicate assets prove insufficient to meet participating members' underwriting liabilities. They are set with reference to the SCR together with the Lloyd's uplift. Since FAL is not under the control of the managing agent, no amount has been shown in the financial statements. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses;

3. the central assets are available at the discretion of the ` Council of Lloyd's to meet any valid claim that cannot be met from the resources of any member further up the chain.

Lloyd's also retains the right to request a contribution equal to 3% of capacity from the Syndicate.

Syndicate 6104 operates on a funds-withheld basis. A significant loss event could place a strain on Syndicate 33's cash flows. Consequently, we put names on notice that, in these circumstances, we may need to make a cash call, at some time in the future.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Syndicate is set out in the annual accounts of Syndicate 33 (note 4). Additionally, Syndicate 6104 has material exposure to losses arising out of Covid-19. The ultimate amounts of these claims are subject to a great deal of uncertainty which, combined with their total size, increases the level of uncertainty in the actuarial best estimate of Syndicate 6104 significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. Consequentially, the held management reserves for Syndicate 6104 are materially above the actuarial best estimate such that the remaining downside uncertainty in the booked reserves is consistent with the normal range of uncertainty for insurance liabilities at this stage of development.

Directors' interests

The Directors of the managing agent and their interests are disclosed in Syndicate 33 annual accounts.

Disclosure of information to the auditors

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

Annual General Meeting

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

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

This year, we therefore give notice that:

- Hiscox Syndicates Limited does not propose to hold an AGM of the members of Syndicate 6104 in 2021;
- we propose that PwC are re-appointed as the Syndicate's registered auditor for the period of one year from the date of this Annual Report;
- members may object to the matters set out above within 21 days of this notice.

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

If any objections are received, depending on the level or nature of such objections, we shall then consider whether to:

- apply for Lloyd's consent not to hold an AGM. Lloyd's may give its consent subject to any such conditions and requirements as it may determine; or
- convene an AGM.

By order of the Board

B E Masojada
Group Chief Executive
10 March 2021

Statement of managing agent's responsibilities
Hiscox Syndicate 6104 annual accounts

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

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

In preparing those syndicate annual accounts, the managing agent is required to:
- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume the Syndicate will do so.

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

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

Independent auditors' report
To the members of Syndicate 6104

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 6104's syndicate annual accounts:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report and Accounts (the 'Annual Report'), which comprise: the balance sheet – assets and the balance sheet – liabilities as at 31 December 2020; the profit and loss account: technical account – general business, the profit and loss account: non-technical account – general business, the statement of changes in member's balances, and the statement of cash flows for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

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 at least 12 months from when the syndicate annual accounts are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Syndicate's ability to continue as a going concern.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing agent's report

In our opinion, based on the work undertaken in the course of the audit, the information given in the managing agent's report for the year ended 31 December 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts

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

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to revenue recognition and management override of controls. Audit procedures performed included:

- discussions with senior management involved in the risk and compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessment of any matters reported on the Syndicate's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- reading key correspondence with Lloyd's, the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- reviewing relevant meeting minutes including those of the Audit Committee;
- testing journal entries, including revenue journals, identified in accordance with our risk assessment; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, 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.

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

Use of this report

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

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Robert Cordock
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 March 2021

Profit and loss account: technical account – general business
Hiscox Syndicate 6104 annual accounts

Year ended 31 December 2020	Notes	2020 $000	2019 $000
Earned premiums, net of reinsurance			
Gross premiums written		40,841	59,491
Outward reinsurance premiums		(1,179)	(876)
Net premiums written		39,662	58,615
Change in the provision for unearned premiums:			
Gross amount		1,651	(2,515)
Reinsurers' share		–	–
Change in the net provision for unearned premiums		1,651	(2,515)
Earned premiums, net of reinsurance		41,313	56,100
Allocated investment return transferred from the non-technical account		1,029	1,327
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(60,560)	(8,352)
Reinsurers' share		–	–
Net claims paid		(60,560)	(8,352)
Change in provision for claims:			
Gross amount		65,954	(101,289)
Reinsurers' share		–	–
Change in the net provision for claims		65,954	(101,289)
Claims incurred, net of reinsurance		5,394	(109,641)
Net operating expenses	6, 7	(8,622)	(12,004)
Balance on the technical account for general business		39,114	(64,218)

The notes on pages 69 to 75 form an integral part of these annual accounts.

Profit and loss account: non-technical account – general business
Hiscox Syndicate 6104 annual accounts

Year ended 31 December 2020	Notes	2020 $000	2019 $000
Balance on the technical account for general business		39,114	(64,218)
Investment income		1,029	1,327
Allocated investment return transferred to the general business technical account		(1,029)	(1,327)
Foreign exchange (losses)/gains		(2,196)	635
Profit/(loss) for the financial year		36,918	(64,853)

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts, therefore no statement of other comprehensive income has been presented.

The notes on pages 69 to 75 form an integral part of these annual accounts.

Balance sheet – assets
Hiscox Syndicate 6104 annual accounts

At 31 December 2020	Notes	2020 $000	2019 $000
Debtors			
Debtors arising out of reinsurance operations	9	123,024	125,609
Other debtors		372	–
		123,396	125,609
Prepayments and accrued income			
Deferred acquisition costs	8	2,462	2,788
Total assets		125,858	128,397

The notes on pages 69 to 75 form an integral part of these annual accounts.

Balance sheet – liabilities
Hiscox Syndicate 6104 annual accounts

At 31 December 2020	Notes	2020 $000	2019 $000
Capital and reserves			
Members' balances		(68,886)	(131,193)
Technical provisions			
Provision for unearned premium	8	11,545	13,086
Claims outstanding	8, 10	180,325	242,327
		191,870	255,413
Creditors			
Creditors arising out of reinsurance operations	11	2,737	3,662
Other creditors		137	515
		2,874	4,177
Total liabilities		125,858	128,397

The notes on pages 69 to 75 form an integral part of these annual accounts.

The annual accounts on pages 56 to 68 were approved by the Board of Hiscox Syndicates Limited on 10 March 2021 and were signed on its behalf by

B E Masojada
Group Chief Executive

Statement of changes in member's balances
Hiscox Syndicate 6104 annual accounts

	2020 $000	2019 $000
Members' balances brought forward at 1 January	(131,193)	(46,134)
Total recognised gains and losses for the year	36,918	(64,853)
Payments of profit to members' personal reserve funds	25,648	(19,879)
Members' agent fees	(259)	(327)
Members' balances carried forward at 31 December	(68,886)	(131,193)

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

Statement of cash flows
Hiscox Syndicate 6104 annual accounts

	2020 $000	2019 $000
Net cash flows from operating activities		
Profit/(loss) for the year	36,918	(64,853)
(Decrease)/increase in gross technical provisions	(63,543)	105,500
(Increase)/decrease in reinsurers' share of gross technical provisions	–	–
Decrease/(increase) in debtors	2,585	(11,795)
Decrease in creditors	(925)	(2,426)
Movement in other assets/liabilities	(424)	(6,220)
Investment return	1,029	1,327
Other	(1,029)	(1,327)
Net cash (outflows)/inflows from operating activities	(25,389)	20,206
Net cash flows from investing activities		
Purchase of equity and debt instruments	–	–
Sale of equity and debt instruments	–	–
Investment income received	–	–
Foreign exchange	–	–
Net cash flows from financing activities	–	
Cash call/(distribution) of profits	25,389	(20,206)
Net increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	–	–
Cash and cash equivalents at the end of the year	–	–

Notes to the accounts
Hiscox Syndicate 6104 annual accounts

1 Basis of preparation and critical accounting policies
The basis of preparation of these accounts is the same as disclosed for Syndicate 33.

These annual accounts are presented in US Dollars, which is the Syndicate's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated. Some disclosure items, for example, Syndicate capacity are presented in Sterling as it is denominated in this currency, US Dollar amounts are converted at the closing rate at 31 December 2020. The functional currency of the Syndicate is US Dollars.

2 Accounting policies
The principal accounting policies adopted are the same as those disclosed for Syndicate 33.

Accounting policies not applied by Syndicate 6104:

2(a) Pension costs
Syndicate 6104 is not recharged for any pension costs.

Additional accounting policies applied by Syndicate 6104:

2(b) Funds withheld
Underlying premiums and claims are settled by Syndicate 33 with policyholders as they fall due. Within Syndicate 6104 these are accounted for on a funds-withheld basis.

Debtors and creditors arising between Syndicate 6104 and Syndicate 33 are not settled until the year of account has closed. Up to that time the balances are shown separately. Claims outstanding are also settled when the year of account closes. Other non-technical transactions are settled when the year of account closes.

Interest is calculated on the daily paid cash fund experience balance, held by Syndicate 33 on behalf of the Syndicate. Interest on each currency balance is credited at the same yield earned by Syndicate 33 in the period for each currency.

3 Judgements and key sources of estimation uncertainty
The judgements and key sources of estimation uncertainty are the same as those disclosed for Syndicate 33, with the exception of:

3(a) Valuation of general insurance contract liabilities
Covid-19 is an unprecedented event for the insurance industry and the effects of it as a loss event remain both ongoing and uncertain. In measuring the liabilities the Syndicate has therefore included an allowance for risk and uncertainties above the best estimate. The ultimate amounts of these claims are subject to a great deal of uncertainty which, combined with their total size, increases the level of uncertainty in the actuarial best estimate of the Syndicate beyond the normal range of uncertainty for insurance liabilities at this stage of development. Consequently, the held management reserves for the Syndicate are materially above the actuarial best estimate such that the remaining downside uncertainty in the booked reserves is consistent with the normal range of uncertainty for insurance liabilities at this stage of development.

3(b) Premium recognition
The Syndicate writes premiums as reported under its reinsurance contract with Syndicate 33. The gross written premium written in Syndicate 33 is initially based on estimated premium income (EPI) of each contract. EPI estimates are based on information provided by the brokers, past underwriting experience and the contractual terms of the policy. The EPI estimates are reviewed on a regular basis. As the year of account closes premiums are adjusted to match the actual signed premium. Premiums in respect of insurance contracts underwritten under binding authorities are booked as the underlying contracts incept, a straight-line basis is selected for this inception pattern. 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.

Gross written premium includes an estimation for reinstatement premiums which is determined based on incurred losses held in the technical provisions.

3(c) Fair value of financial investments
The Syndicate does not hold any investments.

4 Management of risk
Syndicate 6104 accepts all business under a quota-share reinsurance arrangement with Syndicate 33, which is operated on a funds-withheld basis in which funds are only received by the Syndicate when Syndicate 33 makes a distribution, typically

4 Management of risk continued

on closure of the year of account. Consequently the majority of the principal risks applying to Syndicate 6104 are managed within Syndicate 33 and are disclosed within the Syndicate 33 annual accounts management of risk, with the exception of the following disclosures:

Insurance risk

(ii) Reserving risk

Booked reserves include a net margin of $27.7 million (2019: $19.2 million), representing 22.9% (2019: 10.9%) of net booked reserves. This is the margin above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy.

Financial risk

(a) Reliability of fair values

No assets or liabilities are held at fair value.

(b) Interest rate risk

No assets and liabilities are subject to interest rate risk.

(c) Credit risk

The credit risk for this Syndicate is the same as disclosed for Syndicate 33. All assets carrying credit risk are due from Syndicate 33, which is rated A+ based on S&P.

(d) Liquidity risk

The liquidity risk for this Syndicate is the same as disclosed for Syndicate 33. It is also exposed to Syndicate 33 as all balances are settled by Syndicate 33.

(e) Currency risk

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

Table e)

At 31 December 2020	US Dollar $000	Sterling $000	Euro $000	Canadian Dollar $000	Total $000
Insurance and reinsurance receivables	86,112	26,771	7,330	2,812	123,025
Other assets	2,916	(108)	11	14	2,833
Total assets	89,028	26,663	7,341	2,826	125,858
Technical provisions	(114,158)	(74,697)	(2,248)	(768)	(191,871)
Insurance and reinsurance payables	(2,548)	(325)	–	–	(2,873)
Total liabilities	(116,706)	(75,022)	(2,248)	(768)	(194,744)
Members' balances by currency	(27,678)	(48,359)	5,093	2,058	(68,886)

At 31 December 2019	US Dollar $000	Sterling $000	Euro $000	Canadian Dollar $000	Total $000
Insurance and reinsurance receivables	86,850	28,479	7,295	2,986	125.610
Other assets	2,198	552	14	23	2,787
Total assets	89,048	29,031	7,309	3,009	128,397
Technical provisions	(208,724)	(41,795)	(4,260)	(634)	(255,413)
Insurance and reinsurance payables	(4,765)	589	–	–	(4,176)
Total liabilities	(213,489)	(41,206)	(4,260)	(634)	(259,589)
Members' balances by currency	(124,441)	(12,175)	3,049	2,375	(131,192)

4 Management of risk

(e) Currency risk continued

Sensitivity analysis

A 10% strengthening of the US Dollar against the following currencies at 31 December would have increased/(decreased) members' balances for the financial year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Table f)

	2020 $000	2019 $000
Sterling	4,836	1,218
Euro	(509)	(305)
Canadian Dollar	(206)	(238)

(f) Operational risk

While the Syndicate underwriting capacity has reduced from $72.6 million for the 2018 year of account to $30.5 million for the 2021 year of account, with the cession of the excess of loss property catastrophe reinsurance and cyber accounts from Syndicate 33 also reducing in line with this from 28% for the 2018 year of account to 12.3% for the 2021 year of account, the Syndicate's operational risk remains aligned with Syndicate 33.

5 Segmental analysis

All business written by the Syndicate is reinsurance. All premiums were concluded in the UK.

The geographical analysis of gross premiums earned by destination is as follows:

	2020 $000	2019 $000
European Union member states, excluding United Kingdom	980	799
United States	29,027	35,099
Other	12,484	21,079
Total	42,492	56,977

6 Net operating expenses

	2020 $000	2019 $000
Brokerage and commissions	7,981	12,166
Change in deferred acquisition costs	346	(525)
Members' standard personal expenses	295	363
Total	8,622	12,004

All administrative expenses are charged to and borne by Syndicate 33. No brokerage or commissions were borne on direct business written in this or the prior period.

Members' standard personal expenses represent a managing agent's fee payable to Hiscox Syndicates Limited.

Syndicate 33 has been charged, on behalf of the Syndicate, fees payable to the Syndicate's auditor for the audit of the syndicate annual accounts.

	2020 $000	2019 $000
Auditors' remuneration		
Fees payable to the Syndicate's auditor for the audit of the syndicate annual accounts	33	32
Fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	17	16
Total	50	48

7 Staff costs

All staff are employed by a Hiscox Group service company. No recharge of salaries or Directors' remuneration is made specifically to the Syndicate. None of the Syndicate's active underwriter's remuneration has been charged to the Syndicate.

8 Technical provisions

2020	Gross provisions $000	Reinsurance assets $000	Net $000
Claims incurred:			
Balance at 1 January	242,327	–	242,327
Over-provision in respect of prior claims and claim adjustment expenses	1,682	–	1,682
Expected cost of current year claims	(7,076)	–	(7,076)
Claims paid for claims settled in year	(60,560)	–	(60,560)
Effect of movements in exchange rates	3,952	–	3,952
Balance at 31 December	180,325	–	180,325
Claims reported and claims adjustment expenses	–	–	–
Claims incurred but not reported	180,325	–	180,325
Unexpired risk reserve	–	–	–
Balance at 31 December	180,325	–	180,325
Unearned premiums:			
Balance at 1 January	13,086	–	13,086
Premium written during the year	40,841	(1,179)	39,662
Premium earned during the year	(42,492)	1,179	(41,313)
Effect of movements in exchange rates	110	–	110
Balance at 31 December	11,545	–	11,545
Deferred acquisition costs:			
Balance at 1 January	2,788	–	2,788
Acquisition costs written	7,981	–	7,981
Acquisition costs earned	(8,327)	–	(8,327)
Effect of movements in exchange rates	20	–	20
Balance at 31 December	2,462	–	2,462

8 Technical provisions continued

2019	Gross provisions $000	Reinsurance assets $000	Net $000
Claims incurred:			
Balance at 1 January	139,629	–	139,629
Over-provision in respect of prior claims and claim adjustment expenses	22,180	–	22,180
Expected cost of current year claims	87,461	–	87,461
Claims paid for claims settled in year	(8,352)	–	(8,352)
Effect of movements in exchange rates	1,409	–	1,409
Balance at 31 December	242,327	–	242,327
Claims reported and claims adjustment expenses	–	–	–
Claims incurred but not reported	242,327	–	242,327
Unexpired risk reserve	–	–	–
Balance at 31 December	242,327	–	242,327
Unearned premiums:			
Balance at 1 January	10,284	–	10,284
Premium written during the year	59,491	(876)	58,615
Premium earned during the year	(56,976)	876	(56,100)
Effect of movements in exchange rates	287	–	287
Balance at 31 December	13,086	–	13,086
Deferred acquisition costs:			
Balance at 1 January	2,207	–	2,207
Acquisition costs written	12,166	–	12,166
Acquisition costs earned	(11,641)	–	(11,641)
Effect of movements in exchange rates	56	–	56
Balance at 31 December	2,788	–	2,788

The Syndicate has material exposure to losses arising out of Covid-19 and currently reserved $20.4 million, net of reinsurance for these claims. The Covid-19 losses primarily arose through exposure to reinsurance of business interruption insurance in Syndicate 33. Covid-19 is an unprecedented event for the insurance industry and the effects of it as a loss event remain both ongoing and uncertain. The ultimate amounts of these claims are subject to a high degree of uncertainty which, combined with their total size, increases the level of uncertainty in the best estimate of the cost of future claim payments of the Syndicate significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. Consequentially, in measuring the liabilities, the Syndicate has included an allowance for risk and uncertainties that is materially above the best estimate commensurate with the level uncertainty of the claims at this stage of development. In determining the Covid-19-related net claims, the Syndicate estimates the reinsurers' share of the claims by applying a consistent set of assumptions with those in determining the gross claims, considering the individual wording of the reinsurance treaties, and estimating default risks.

9 Debtors arising out of reinsurance operations

	2020 $000	2019 $000
Amounts due from intermediaries		
Due within one year	38,870	37,330
Due after one year	84,154	88,279
Total	123,024	125,609

10 Claims development tables

The claims development tables below have been calculated by converting estimated claims and cumulative payments in Canadian Dollars, Sterling and Euros to US Dollars at the closing rate of exchange at 31 December 2020. The table is produced on a year of account basis. Some business is not off risk after the first 12 months, therefore we would anticipate cumulative claims to increase in the second year as this business is earned.

Pure underwriting year Gross of reinsurance	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	**2020 $000**
Estimate of cumulative claims:										
At end of underwriting year one	26,067	40,933	19,791	13,968	5,617	18,039	62,858	72,809	101,107	**38,746**
One year later	28,144	25,246	9,637	10,192	3,206	12,369	59,536	82,085	66,076	
Two years later	27,172	20,421	6,426	10,325	3,420	9,349	60,506	77,181		
Three years later	26,574	20,242	6,597	9,883	2,814	8,633	59,038			
Four years later	25,455	21,095	6,678	9,921	2,947	8,737				
Five years later	25,357	18,374	6,797	9,733	2,922					
Six years later	23,629	18,375	6,947	9,753						
Seven years later	23,563	18,539	6,982							
Eight years later	23,794	18,379								
Nine years later	23,713									
Cumulative payments	(23,795)	(18,542)	(6,947)	(9,737)	(2,971)	(8,633)	(60,506)	–	–	**–**
Estimated balance to pay	(82)	(163)	35	16	(49)	104	(1,468)	77,181	66,076	**38,746**
Provision in respect of prior years										(71)
Total gross provision included in the balance sheet										**180,325**

Pure underwriting year Net of reinsurance	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	**2020 $000**
Estimate of cumulative claims:										
At end of underwriting year one	26,067	40,933	19,791	13,968	5,617	18,039	62,858	72,809	101,107	**38,746**
One year later	28,144	25,246	9,637	10,192	3,206	12,369	59,536	82,085	66,076	
Two years later	27,172	20,421	6,426	10,325	3,420	9,349	60,506	77,181		
Three years later	26,574	20,242	6,597	9,883	2,814	8,633	59,038			
Four years later	25,455	21,095	6,678	9,921	2,947	8,737				
Five years later	25,357	18,374	6,797	9,733	2,922					
Six years later	23,629	18,375	6,947	9,753						
Seven years later	23,563	18,539	6,982							
Eight years later	23,794	18,379								
Nine years later	23,713									
Cumulative payments	(23,795)	(18,542)	(6,947)	(9,737)	(2,971)	(8,633)	(60,506)	–	–	**–**
Estimated balance to pay	(82)	(163)	35	16	(49)	104	(1,468)	77,181	66,076	**38,746**
Provision in respect of prior years										(71)
Total net provision included in the balance sheet										**180,325**

Prior year development has been further explained under the 'results' section of the report of the Directors of the managing agent.

11 Creditors arising out of reinsurance operations

	2020 $000	2019 $000
Amounts due from intermediaries		
Due within one year	862	2,108
Due after one year	1,875	1,554
Total	2,737	3,662

12 Related parties

Hiscox Syndicates Limited (HSL) manages Syndicate 6104 as well as Syndicate 33 which purchases some reinsurance from Syndicate 6104 on an arm's-length basis. Syndicate 6104 pays an overriding commission and profit commission on the business received from Syndicate 33. Syndicate 6104 does not sell reinsurance to any other party.

HSL is a wholly owned indirect subsidiary of Hiscox Ltd which is incorporated in Bermuda and listed on the London Stock Exchange. HSL receives a fixed fee for each pure underwriting year.

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

Balance sheet net assets and (liabilities) outstanding	2020 $000	2019 $000
Hiscox managed Syndicates	(68,887)	(131,193)

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

Net income and (expenses) reflected in the profit and loss	2020 $000	2019 $000
Hiscox Syndicates Limited	(295)	(353)
Hiscox managed Syndicates	(39,360)	(64,500)

Hiscox Syndicates Limited charged managing agent fees to Syndicate 6104 of $0.3 million (2019: $0.4 million). Hiscox Syndicate 33 owes the Syndicate the cumulative result due on the quota share reinsurances Syndicate 6104 provides.

13 Syndicate structure

The managing agent of the Syndicate is Hiscox Syndicates Limited whose immediate parent undertaking is Hiscox Holdings Limited, a company registered in England and Wales. The ultimate parent undertaking of the largest and smallest group of companies for which group accounts are drawn up is Hiscox Ltd, Bermuda. Copies of Hiscox Ltd financial statements can be obtained from Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.

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Hiscox Syndicate 6104 underwriting year accounts

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Report of the Directors of the managing agent
Hiscox Syndicate 6104 underwriting accounts

The Directors of the managing agent present their report at 31 December 2020.

This report comprises the cumulative result to 31 December 2020 for the closed 2018 account of Syndicate 6104.

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable accounting standards in the United Kingdom. The Syndicate continues to adopt the going concern basis in preparing the syndicate underwriting year accounts.

Principal activity and review of the business

Special Purpose Syndicate 6104 (Syndicate 6104) was established for the 2008 year of account to provide quota share reinsurance to Syndicate 33's excess of loss property catastrophe reinsurance account.

Syndicate 6104 pays a fee and profit commission to Syndicate 33 for the business ceded. In addition, HSL charges a fee of 0.5% of capacity to Syndicate 6104 from which it must meet all of its syndicate expenses.

The Syndicate operates like a normal syndicate in that upon closure of the account at 36 months the assets and liabilities are transferred to the next year of account through the RITC process. There are, however, certain differences, the most significant of which is that the capacity, which is all provided by third-party capital providers, operates on a limited tenancy basis. The Syndicate only writes one contract per year, a reinsurance of Syndicate 33. This contract operates on a funds-withheld basis, with 6104 credited interest on the balance owing by Syndicate 33.

The portfolio is underwritten by the Syndicate 33 reinsurance underwriting team and includes exposures from all territories around the world. Due to the nature of the business the Syndicate is likely to produce a volatile operating performance. A small amount of very high level attachment US windstorm and US earthquake industry loss warranty retrocession protection was purchased with the intention of bringing the US windstorm and US earthquake net realistic disaster scenario (RDS) percentages in line with those of the other main exposures.

2018 account

For 2018, the capacity of the Syndicate was £55.8 million ($76.3 million). The cession from Syndicate 33 was maintained at 28%. The account has closed with a loss to capacity of 48.8% after all personal expenses (except member's agent's fees). The result after including members' agents fees was $37.6 million which will be settled by a cash call to the members on 15 June 2021.

This was an active year for large loss events. Hurricanes Michael and Florence, Typhoons Jebi and Trami and Northern California wildfires combined have been reserved at $65.2 million. This reserve includes an element of margin. These events were the only significant losses materially impacting the account.

2019 account

For 2019, the capacity of the Syndicate was held consistent at £55.0 million ($75.2 million). The cession from Syndicate 33 was maintained at 28%. This was the third year in a row for large loss events. Hurricane Dorian, Typhoons Faxai and Hagibis and California wildfires combined have been reserved at $46.5 million. In addition, the 2019 account was impacted by Covid-19 through potential exposure to reinsurance of business interruption insurance. This exposure has been reserved at $6.4 million. Both the natural catastrophe and the Covid-19 reserves include an element of margin.

We have set a loss forecast in the range of -30.5% to -20.5% on capacity.

2020 account

For 2020, the capacity of the Syndicate was reduced to £44.4 million ($60.7 million). The cession from Syndicate 33 was reduced to 22.5%. 2020 was a significantly more benign year from a natural catastrophe perspective compared to the previous three years with no material natural catastrophe loss events impacting the Syndicate. However, the 2020 account was also exposed to Covid-19 through potential exposure to reinsurance of business interruption insurance. This exposure has been reserved at $14.0 million. This reserve includes an element of margin.

We have set a loss forecast in the range of -28.5% to -18.5% on capacity.

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2021 account and the future

The capacity has reduced to £22.3 million ($30.5 million) for the 2021 year of account. The cession from Syndicate 33 has reduced in line with this to 12.3%.

Syndicate capacity and ownership

Syndicate capacity and ownership is disclosed in Syndicate 6104 annual accounts.

Directors' interests

The Directors of the managing agent and their interests are disclosed in Syndicate 33 annual accounts.

Disclosure of information to the auditors

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

By order of the Board

B E Masojada
Group Chief Executive
10 March 2021

Statement of managing agent's responsibilities
Hiscox Syndicate 6104 underwriting accounts

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:
- select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the Syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same Syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

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

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

Independent auditors' report
To the members of Syndicate 6104
2018 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, Syndicate 6104's syndicate underwriting year financial statements for the 2018 year of account for the 36 months ended 31 December 2020 (the 'underwriting year financial statements'):

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2020 and of its result for the 2018 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Hiscox Syndicate 6104 underwriting year accounts, (the 'underwriting year accounts'), which comprise: the balance sheet as at 31 December 2020, the profit and loss account: technical account – general business and the profit and loss account: non-technical account – general business for the 36 months then ended; and the notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800, and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the underwriting year financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Emphasis of matter – basis of preparation

Without modifying our opinion, we draw attention to note 1 of the underwriting year financial statements, which describes the basis of preparation. In particular, as these underwriting year financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year financial statements. The underwriting year financial statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Use of this report paragraph below. As a result, the underwriting year financial statements may not be suitable for another purpose.

Reporting on other information

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

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

With respect to the report of the Directors of the managing agent (the 'managing agent's report'), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) have been included.

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and

Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing agent's report

In our opinion, based on the work undertaken in the course of the audit, the information given in the managing agent's report for the year ended 31 December 2020 is consistent with the underwriting year financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the managing agent for the underwriting year financial statements

As explained more fully in the statement of managing agent's responsibilities, the managing agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2018 closed year of account. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the underwriting year financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to revenue recognition and management override of controls. Audit procedures performed included:

- discussions with senior management involved in the risk and compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessment of any matters reported on the Syndicate's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- reading key correspondence with Lloyd's, the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- reviewing relevant meeting minutes including those of the Audit Committee;
- testing journal entries, including revenue journals, identified in accordance with our risk assessment; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the underwriting year financial statements. Also, 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.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the managing agent in respect of the Syndicate; or
- the underwriting year financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Robert Cordock
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 March 2021

Profit and loss account: technical account – general business
Hiscox Syndicate 6104 underwriting accounts

For the 36 months ended 31 December 2020	Notes	$000
Syndicate allocated capacity		76,354
Earned premiums, net of reinsurance		
Gross premiums written		47,692
Outward reinsurance premiums		(862)
Earned premiums, net of reinsurance		46,830
Reinsurance to close premium received, net of reinsurance		60,526
		107,356
Allocated investment return transferred from the non-technical account	6	631
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(60,560)
Reinsurers' share		–
Net claims paid		(60,560)
Change in provision for claims:		
Gross amount		(73,129)
Reinsurers' share		–
Change in the net provision for claims		(73,129)
Claims incurred, net of reinsurance		(133,689)
Net operating expenses	7	(9,449)
Balance on the technical account for general business		(35,151)

The notes on pages 86 to 87 form an integral part of these underwriting year accounts.

Profit and loss account: non-technical account – general business
Hiscox Syndicate 6104 underwriting accounts

For the 36 months ended 31 December 2020	Notes	$000
Balance on the technical account for general business		**(35,151)**
Investment income	6	631
Allocated investment return transferred to general business technical account		(631)
Foreign exchange gains		(2,131)
Result before members' agents' fees		**(37,282)**
Members' agents' fees advances		(325)
Amounts due from members as at 31 December 2020		**(37,607)**

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts, therefore no statement of other comprehensive income has been presented.

The notes on pages 86 to 87 form an integral part of these underwriting year accounts.

Balance sheet
Hiscox Syndicate 6104 underwriting accounts

2018 account at 31 December 2020	Notes	At 36 months $000
Assets		
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	3	–
Debtors		
Debtors arising out of reinsurance operations		38,870
Other debtors		15
Total assets		38,885
Liabilities		
Capital and reserves		
Members' balances		37,607
Reinsurance to close premium payable – gross amount	3	(75,503)
Creditors		
Creditors arising out of direct reinsurance operations		–
Creditors arising out of reinsurance operations		(862)
Other creditors		(127)
		(989)
Total liabilities		(38,885)

The notes on pages 86 to 87 form an integral part of these underwriting year accounts.

The underwriting year accounts were approved by the Board of Hiscox Syndicates Limited on 10 March 2021 and were signed on its behalf by

B E Masojada
Group Chief Executive

Notes to the accounts
Hiscox Syndicate 6104 underwriting accounts

1 Basis of preparation
The basis of preparation of these accounts are the same as disclosed for Syndicate 33 underwriting accounts.

2 Accounting policies
The principal accounting policies adopted are the same as those disclosed for Syndicate 33 underwriting year accounts.

3 Reinsurance premium to close the 2018 and prior years of account

	Reported $000	IBNR $000	Total $000
Reinsurance to close premium received			
Gross reinsurance to close premium received	–	60,526	60,526
Reinsurance recoveries anticipated	–	–	–
Reinsurance to close premium receivable, net of reinsurance	–	60,526	60,526
Reinsurance to close premium payable			
Gross reinsurance to close premium payable	–	75,503	75,503
Reinsurance recoveries anticipated	–	–	–
Reinsurance to close premium payable, net of reinsurance	–	75,503	75,503

4 Analysis of underwriting result

	2017 and prior $000	2018 $000	Total $000
Technical account balance before allocated investment return and net operating expenses	2,022	(28,355)	(26,333)
Brokerage and commission on gross premium	(693)	(8,371)	(9,064)
Total	1,329	(36,726)	(35,397)

5 Segmental analysis
All business written by the Syndicate is reinsurance. All premiums were concluded in the UK.

6 Investment return

	2018 year of account $000
Investment income	631

Investment return for the 2018 year of account is recognised in the 2018, 2019 and 2020 calendar years. The investment income and yield for these calendar years is disclosed in the investment return notes in each of the respective syndicate annual accounts.

7 Net operating expenses

The cumulative Syndicate expenses charged in the 2018 underwriting account were made up as follows:

	2018 year of account $000
Brokerage and commissions	9,064
Members' standard personal expenses	385
Total	9,449

All administration expenses are charged to and borne by Syndicate 33. No brokerage or commissions were borne on direct business written but arises as a share of Syndicate 33 through the reinsurance arrangement..

Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT).

	2018 year of account $000
Auditors' remuneration	
Fees payable to the Syndicate's auditor for the audit of the syndicate 2018 underwriting account	43
Fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	15
Total	58

8 Debtors arising out of reinsurance operations

	$000
Due from intermediaries	38,870

9 Creditors arising out of reinsurance operations

	$000
Amounts due to intermediaries	(862)

Seven-year summary
Hiscox Syndicate 6104 underwriting year accounts

Year of account	2012	2013	2014	2015	2016	2017	2018
Syndicate allocated capacity in £000	38,686	66,354	72,089	64,927	55,534	54,490	**55,847**
Syndicate allocated capacity in $000	49,274	84,515	91,820	82,698	70,734	72,161	**76,354**
Number of underwriting members	1,077	1,336	1,524	1,435	1,409	1,389	**1,296**
Net premiums net of brokerage in $000	33,668	39,029	33,022	23,020	28,300	35,023	**37,766**
Capacity utilised (%)	78	54	40	30	45	51	**51**
Net capacity utilised (%)	68	46	36	28	40	49	**49**

Results for an illustrative share of £10,000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000
Gross premiums	13,362	10,223	7,758	6,945	8,450	8,716	**8,540**
Net premiums	12,156	9,250	7,287	6,670	7,861	8,327	**8,385**
Reinsurance to close from an earlier account	5,746	2,349	499	1,699	(456)	1,530	**10,838**
Net claims paid	(5,727)	(2,392)	(531)	(1,662)	458	(1,533)	**(10,844)**
Reinsurance to close	(3,970)	(614)	(1,241)	440	(1,523)	(11,125)	**(13,095)**
(Loss)/profit on exchange	(65)	266	1,079	430	(50)	56	**(382)**
Syndicate operating expenses	(3,454)	(3,368)	(2,707)	(3,125)	(2,765)	(1,900)	**(1,623)**
Names personal expenses	(64)	(64)	(64)	(64)	(68)	(66)	**(69)**
Balance on technical account before investment return	4,622	5,427	4,322	4,388	3,457	(4,711)	**(6,790)**
Investment return	340	62	273	214	230	73	**113**
Profit/(loss) before members' agent's fees	4,962	5,489	4,595	4,602	3,687	(4,638)	**(6,677)**
Profit/(loss) before members' agent's fees	3,896	4,310	3,608	3,614	2,895	(3,502)	**(4,883)**

Notes to the seven-year summary
1. The seven-year summary has been prepared from the audited accounts of the Syndicate.
2. Personal expenses have been stated at the amount which would be incurred pro-rata by Names writing the illustrative premium income in the Syndicate, irrespective of any minimum charge applicable. Personal expenses include managing agent fees, central fund contributions, Lloyd's subscriptions and profit commissions. These figures exclude members' agents' fees.
3. 'Capacity utilised' represents gross premiums as a percentage of the allocated capacity. 'Net capacity utilised' represents net premiums as a percentage of the allocated capacity. For these calculations, gross and net premiums are net of brokerage.
4. Profit commission has been calculated in accordance with the applicable agency agreements.
5. Premium figures and Syndicate operating expenses are gross of brokerage.
6. All years of account are presented using transactional rates of exchange, the functional and presentation currency of the underwriting year accounts changed from 1 January 2018, all years of account where the underwriting accounts have been presented in Sterling have been translated at the closing rate prevailing at 31 December 2018.

Notes

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