Accounts Disclaimer

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Report and Accounts 2021

Hiscox Syndicate 3624

Directors and administration
Hiscox Syndicate 3624

Managing agent:

Managing agent

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

Directors

R S Childs – Non Executive Chairman
A Dolphin
C J Foulger – Non Executive
H A Hussain
J Illingworth – Non Executive (appointed 23 June 2021)
H Kam
H C V Keeling – Non Executive
P A Lawrence
K J M Markham
B E Masojada (resigned 31 December 2021)
J R Musselle
C Nielsen (resigned 18 June 2021)
A C Winther – Non Executive

Managing agent's registered office

1 Great St Helen's
London
EC3A 6HX

Managing agent's company number

02590623

Syndicate 3624:

Active underwriter

J R Musselle

Bankers

Lloyds Bank PLC
Citibank
Royal Bank of Canada
Northern Trust

Investment manager

Payden & Rygel Global Limited
Fiera Capital Corporation

Registered auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

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

The Directors of the managing agent present their report for Syndicate 3624 for the year ended 31 December 2021.

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

Results
The result for Syndicate 3624 in calendar year 2021 is a loss of $53.8 million (2020: loss of $194.4 million). This is principally due to two loss portfolio transfer (LPT) transactions being entered into, which gave rise to a day one loss of $28.9 million. This is followed by further strengthening of US cyber and broker general liability business and a dampened investments return. The reduction in gross premiums written is driven by our strategy to exit unprofitable lines such as financial services and casualty, and reduce exposure to other less profitable classes such as cyber and technology. The underlying result reflects the remedial action taking place within the US business unit, although the full benefit of the changes will not be realised until 2022.

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

	2021 $m	2020 $m	% change
Gross premiums written	277.6	387.8	(28.4)
Gross premiums earned	333.9	440.4	(24.2)
Net premiums earned	285.2	392.3	(27.3)
Total recognised loss for the year	(53.8)	(194.4)	(72.3)
Claims ratio (%)	67	107	(40)
Commission ratio (%)	44	45	(1)
Expense ratio (%)	9	2	7
Combined ratio (%)	120	154	(34)

Principal activity
The principal activity of Syndicate 3624 is the transaction of insurance and reinsurance business at Lloyd's of London. The majority of the Syndicate's insurance business is US business written on a surplus lines basis. Syndicate 3624 trades through the Lloyd's worldwide licences and rating. It also benefits from the Lloyd's brand. Lloyd's and Lloyd's Brussels has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from S&P's and AA- (Very strong) rating from Fitch.

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

Geographical split of gross premiums written (%)

	2021	2020
UK	8	4
Europe	–	–
North America	92	96
Asia	–	–
Rest of the world	–	–

Geographical premiums written settlement currency (%)

	2021	2020
Sterling	5	3
Euro	1	–
US Dollar	94	97
Canadian Dollar	–	–

Review of the business
The result for the year was a loss of $53.8 million (2020: loss of $194.4 million). The written premium by class of business is shown below:

Written premium by class of business ($m)

Division	2021 Gross premiums written $m	2020 Gross premiums written $m
Cyber	47.8	54.3
US general liability	20.5	78.8
US liability	171.9	201.9
Product recall	(0.4)	1.1
Technology, media and telecoms	30.7	48.6
Reinsurance	6.8	3.2
Other	0.3	(0.1)
Total	277.6	387.8

Syndicate 3624 was established as an aligned corporate syndicate for the 2009 year of account. Initially all of the Syndicate's business was generated through Hiscox owned distribution channels, in particular Hiscox Inc., the Group's service company in the USA. In subsequent years a number of additional lines of business were added to the portfolio, some of which were sourced through Hiscox owned service companies and some through normal London Market broking channels. However, more recently, the portfolio has begun to revert to its original constitution (albeit much larger) as a result of the remediation actions to exit unprofitable lines and reduce exposure to other less profitable lines such as cyber and technology. Syndicate 3624 now exclusively serves our retail business units in the UK and the USA.

The following classes are written through Hiscox owned service company and London Market broking channel. The Syndicate pays a commission to source business from the Hiscox offices on the ground in the USA.

Cyber
This account protects commercial clients from internet-based risks, and more generally from risks relating to information technology infrastructure and activities.

US general liability
This account covers a broad spectrum of protection including unexpected and unintentional bodily injury and property damage.

US liability
This account covers allied healthcare, errors and omissions, directors and officers', and financial lines.

Product recall
This account was transferred to Syndicate 33 for the 2019 year of account. This business was written on an open market basis. It covers expenses associated with recalling a product from the market. Product recall insurance is typically purchased by manufacturers such as food, beverage, toy, and electronics companies to cover costs such as customer notification, shipping costs, and disposal costs.

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

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

Other
This includes insurance for event cancellation, pilot's loss of licence and some accounts in run-off.

2022 and the future
For 2022, the Syndicate has maintained the stamp capacity at $542 million (£400 million).

Years of account

	2016	2017	2018	2019	2020	2021	2022
Capacity (£m)	400	460	400	360	400	400	**400**
Capacity ($m)*	542	623	542	488	542	542	**542**

*Converted at the closing rate at 31 December 2021.

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

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 callable contribution equal to 3% of capacity from the Syndicate, this will increase to 5% for 2022 year of account.

Lloyd's works in co-operation with insurance regulators in the USA and other parts of the world to strengthen further the security of a Lloyd's policy. This has resulted in significant amounts of the Syndicate's funds being held in various trust funds. This can place a strain on the Syndicate's working capital. Consequently we may need to make a cash call, at some time in the future, to improve the Syndicate's working capital position.

Investment report
The investment result for Syndicate 3624 was a loss of $0.6 million (2020: gain of $19.7 million) equating to a negative return of 0.1%.(2020: positive return of 2.6%). The Syndicate's invested assets totalled $585.4 million at 31 December 2021 (2020: $705.8 million).

Despite a promising start to 2021, driven by the strong global economic recovery, investment return is significantly down primarily due to mark-to-market being negatively impacted by increasing bond yields in the latter part of the year.

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 have ensured continuity of cover to all its customers with European risks. Syndicate 3624 uses 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), Fitch AA- (Very strong) and AA- from Kroll Bond Rating Agency. The 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 2021 were underwriting Names at Lloyd's for the 2019, 2020, 2021 or 2022 years of account.

R S Childs – Non Executive Chairman
A Dolphin
C J Foulger – Non Executive
H A Hussain
J Illingworth – Non Executive (appointed 23 June 2021)
H Kam
H C V Keeling – Non Executive
P A Lawrence
K J M Markham
B E Masojada (resigned 31 December 2021)
J R Musselle
C Nielsen (resigned 18 June 2021)
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 3624 in 2022;
- 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

Hamayou Akbar Hussain
Chief Executive Officer
3 March 2022

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

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

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

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

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

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

Independent auditors’ report
To the member of Syndicate 3624

Report on the audit of the syndicate annual accounts
Opinion
In our opinion, Syndicate 3624’s syndicate annual accounts:
- give a true and fair view of the state of the Syndicate’s affairs as at 31 December 2021 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: balance sheet – assets and the balance sheet – liabilities as at 31 December 2021; the profit and loss account: technical account – general business and profit and loss account: non-technical – general business, the statement of cash flows, and the statement of changes in members’ balances 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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided.

Other than those disclosed in note 7, we have provided no non-audit services to the Syndicate in the period under audit.

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 2021 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 posting inappropriate journal entries to manipulate revenue and management bias in accounting estimates and judgemental areas of the financial statements, such as the valuation of outstanding claims and reinsurance recoveries. Audit procedures performed by the engagement team included:

- discussions with senior management involved in the risk and compliance functions, including consideration of known or suspected instances of non-compliance with laws, 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;
- using our actuarial specialists to test the valuation of IBNR, the reserves margin, and the calculation of the reinsurance assets;
- identifying and testing estimated premium income on a sample basis; and
- designing audit procedures to incorporate unpredictability around the nature, timing and 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 member 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.

Thomas Robb
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2022

Profit and loss account: technical account – general business
Hiscox Syndicate 3624 annual accounts

Year ended 31 December 2021	Notes	2021 $000	2020 $000
Earned premiums, net of reinsurance			
Gross premiums written	5	277,551	387,816
Outward reinsurance premiums		(40,609)	(29,042)
Net premiums written		236,942	358,774
Change in the provision for unearned premiums:			
Gross amount		56,379	52,542
Reinsurers' share		(8,115)	(18,983)
Change in the net provision for unearned premiums		48,264	33,559
Earned premiums, net of reinsurance		285,206	392,333
Allocated investment return transferred from the non-technical account		(611)	19,734
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount	10	(267,556)	(258,923)
Reinsurers' share	10	192,269	49,888
Net claims paid		(75,287)	(209,035)
Change in the provision for claims:			
Gross amount		114,886	(229,086)
Reinsurers' share		(229,348)	18,886
Change in the net provision for claims		(114,462)	(210,200)
Claims incurred, net of reinsurance		(189,749)	(419,235)
Net operating expenses	7	(149,515)	(183,451)
Balance on the technical account for general business		(54,669)	(190,619)

The notes on pages 16 to 37 form an integral part of these annual accounts.

Profit and loss account: non-technical account – general business
Hiscox Syndicate 3624 annual accounts

Year ended 31 December 2021	Notes	2021 $000	2020 $000
Balance on the technical account for general business		(54,669)	(190,619)
Investment income	6	14,754	18,555
Unrealised gains on investments		1,332	5,936
Investment expenses and charges	6	(2,807)	(1,348)
Unrealised losses on investments		(13,890)	(3,409)
Allocated investment return transferred to general business technical account		611	(19,734)
Foreign exchange gains/(losses)		829	(3,744)
Loss for the financial year		(53,840)	(194,363)

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 16 to 37 form an integral part of these annual accounts.

Balance sheet – assets
Hiscox Syndicate 3624 annual accounts

At 31 December 2021	Notes	2021 $000	2020 $000
Investments			
Financial investments	9	585,371	705,825
Deposits with ceding undertakings		2,388	–
Reinsurers' share of technical provisions			
Provision for unearned premium	10	2,474	10,590
Claims outstanding	10, 14	592,777	186,468
		595,251	197,058
Debtors			
Debtors arising out of direct insurance operations	11	29,086	33,419
Debtors arising out of reinsurance operations	12	19,665	17,353
Other debtors	13	5,459	24,133
		54,210	74,905
Other assets			
Cash at bank and in hand		91,530	72,508
Prepayments and accrued income			
Accrued interest		2,924	3,530
Deferred acquisition costs	10	44,752	72,163
Other prepayments and accrued income		–	309
Total assets		1,376,426	1,126,298

The notes on pages 16 to 37 form an integral part of these annual accounts.

Balance sheet – liabilities
Hiscox Syndicate 3624 annual accounts

At 31 December 2021	Notes	2021 $000	2020 $000
Capital and reserves			
Members' balances		(149,209)	(207,709)
Technical provisions			
Provision for unearned premium	10	121,493	178,131
Claims outstanding	10, 14	954,451	1,072,406
		1,075,944	1,250,537
Creditors			
Creditors arising out of insurance operations	15	17,560	51,948
Creditors arising out of reinsurance operations	16	423,827	29,049
Other creditors	17	7,674	1,377
		449,061	82,374
Accruals and deferred income	18	630	1,096
Total liabilities		1,376,426	1,126,298

The notes on pages 16 to 37 form an integral part of these annual accounts.

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

Hamayou Akbar Hussain
Chief Executive Officer
3 March 2022

Statement of changes in members' balances
Hiscox Syndicate 3624 annual accounts

Year ended 31 December 2021	2021 $000	2020 $000
Members' balances brought forward at 1 January	(207,709)	(69,971)
Total recognised losses for the year	(53,840)	(194,363)
Collection of losses	112,340	56,625
Members' balances carried forward at 31 December	(149,209)	(207,709)

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 3624 annual accounts

Year ended 31 December 2021	2021 $000	2020 $000
Net cash flows from operating activities		
Loss for the year	(53,840)	(194,363)
(Decrease)/increase in gross technical provisions	(174,593)	189,688
Decrease/(increase) in reinsurers' share of gross technical provisions	124,576	(5,363)
Decrease/(increase) in debtors	2,021	(7,502)
(Decrease)/increase in creditors	(162,379)	59,955
Movement in other assets/liabilities	52,831	4,509
Investment return	611	(19,734)
Net cash (outflows)/inflows from operating activities	(210,773)	27,190
Net cash flows from investing activities		
Purchase of debt instruments	(483,677)	(987,527)
Sale of debt instruments	591,150	879,065
Settlement of derivatives	(789)	132
Investment income received	11,948	13,700
Foreign exchange	(678)	(1,845)
Net cash flows from financing activities		
Collection of losses	112,340	56,625
Net increase/(decrease) in cash and cash equivalents	19,521	(12,660)
Effect of exchange rates on cash and cash equivalents	(499)	1,009
Cash and cash equivalents at the beginning of the year	72,508	84,159
Cash and cash equivalents at the end of the year	91,530	72,508

Included within cash and cash equivalents are balances totalling $4.6 million (2020: $15.7 million) not available for immediate use by the Syndicate.

Notes to the accounts
Hiscox Syndicate 3624 annual accounts

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

These annual accounts are presented in US Dollars, which is the Syndicate's functional currency. 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 2021. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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.

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 the selected 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.

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, together with adjustments made in the year to premiums written in prior years. Written premiums are disclosed gross of commission payable to intermediaries and exclude taxes and duties levied on premiums.

2 Accounting policies

2(a) Premiums continued

Premiums written include estimates for premiums due but not yet received or notified, less an allowance for expected cancellations. 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.

Effective 30 December 2020, cash transferred under the Part VII has been included in the income statement as a negative premium written, and the subsequent reinsurance premium received back from Lloyd's Brussels has been included as a gross written premium.

Outwards reinsurance premiums are also disclosed gross of commissions and profit participations recoverable from reinsurers. Retroactive insurance contracts that contain significant insurance risk and that have an insurance component and a deposit component are unbundled providing the deposit component can be measured separately. The deposit component is recorded directly into the balance sheet within reinsurers' share of insurance liabilities with a corresponding amount in creditors arising out of reinsurance operations. The reinsurers' share of insurance liabilities relating to the contracts is remeasured at each reporting period with movements taken to the reinsurance recoveries in the income statement. Reinsurance transactions that transfer risk but are retroactive are included in reinsurance assets. The excess of estimated liabilities for claims and claim expenses over the consideration paid is established as a deferred credit at inception. The deferred amounts are subsequently amortised using the recovery method over the settlement period of the reserves and reflected through the claims and claim adjustment expenses line. In transactions where the consideration paid exceeds the estimated liabilities for claims and claim adjustment expenses, a loss is recognised immediately.

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, adjusted for any material backlogs which may occur between cash paid and the claims being signed through. 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. Reinsurers' share of claims outstanding is the amount that it is estimated will be recoverable from reinsurers based upon the gross claims provisions having allowed for bad debt. Reinsurance recoveries are estimated by reviewing individual claims including allowance for claims incurred but not reported, and assessing the reinsurance recovery which is expected based on the outwards reinsurance protections. 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. 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 assessed at a business class level which is the level at which the contracts are managed together.

2 Accounting policies

2(f) Financial assets and liabilities

Financial assets and liabilities include cash at bank and in hand, financial investments and debtors and creditors. Financial investments comprise shares and other variable yield securities, units in unit trusts, debt securities and other fixed income securities.

i. **Financial investments at fair value through profit and loss**
Financial investments are managed on a fair value through the profit and loss accounts (FVPL) basis as they are managed and their performance is evaluated on that basis in accordance with the Syndicate's investment strategy. The Syndicate has elected to measure financial investments at fair value through the profit and loss non-technical account.

ii. **Debtors and creditors**
Debtors and creditors are primarily non-derivative financial assets and liabilities with fixed or determinable payments and not quoted on an active market. These include amounts due to and from agents, brokers and insurance contract holders.
Debtors are initially recognised when due at transaction price, and where applicable are subsequently measured at amortised cost using the effective interest rate method. The recoverability of these assets is assessed at each balance date and appropriate provision made to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the contract. Where 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.

Creditors are initially recognised at transaction price, and where applicable are subsequently measured at amortised cost using the effective interest rate method.

iii. **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(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. Transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. At the balance sheet date, monetary assets and liabilities are translated to functional currency at the year-end rates of exchange. For the purpose of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

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

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) 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(k) 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(l) Cash at bank and in hand

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

2(m) 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.

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

3 Judgements and key sources of estimation

3(a) Valuation of general insurance contract liabilities

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

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

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

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

3(b) Premium recognition

The gross written premiums are 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. 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.

3(c) Fair value of financial instruments

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

4 Management of risk

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

The HSL Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the HSL Risk Committee. Ongoing compliance 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 five broad categories: climate risk, insurance risk, financial risk, regulatory risk and operational risk.

Climate risk

Climate risk relates to the range of complex physical, transition and liability risks arising from climate change. This includes the risk of higher claims as a result of more frequent and more intense natural catastrophes; the financial risks which could arise from the transition to a lower-carbon economy; and the risk that those who have suffered loss from climate change might then seek to recover those losses from others who they believe may have been responsible. Climate-related risk is not considered a standalone risk, but a cross-cutting risk with potential to amplify each existing risk type.

During 2021, the Syndicate has participated in Group-wide testing of the potential impact to assets and liabilities from physical and transition risks as a result of climate change on some of our portfolios across a 30-year horizon. This exercise involved cross-function teams including underwriting, investments, exposure modelling, strategy and risk, and resulted in the identification of a number of new focus areas for 2022. Progress against these actions will be monitored by the managing agent.

In 2021, Directors of the managing agent completed an

4 Management of risk

Climate risk continued

externally-facilitated climate training session to boost existing understanding and awareness of climate-related matters. This training was designed to establish a new baseline of climate knowledge post-COP26; brief Board members on the latest climate-related developments they should be aware of; and introduce the concept of a climate-competent Board. We will look to build on this work further in 2022.

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 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, 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 represent areas of potentially significant exposure for the Syndicate. In addition to understanding the loss the Syndicate may suffer from an event, it is important to ensure that the risk models used are calibrated to the risks faced today. This includes updating trends in claims payments, and capturing climate change-related impacts.

The events are extreme, and unprecedented, 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 loss events, relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period. In the case of climate-exposed risks specifically, the vast majority of underwriting contracts written are annual in nature and thus can be revised frequently.

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 are primarily specialty lines, including Hiscox USA's errors and omissions account, written through Hiscox USA's service company, Hiscox Inc.. This business is written on a surplus lines basis. It also underwrites smaller volumes of casualty, and media, entertainment and events where access to Lloyd's licensing is required. The Syndicate also considers climate change to be a cross-cutting risk with potential to impact each existing risk type, rather than a standalone risk. 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.

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.

4 Management of risk

Casualty risks continued

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 $36.0 million (2020: $73.2 million), representing 10.3% (2020: 8.1%) 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.

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

- handling claims arising from Covid-19 in a fair, consistent and efficient way, and actively settling claims related to US liability (errors and omissions) exposures, and to a lesser extent event and media cancellations in the UK;
- working with reinsurers to finalise the reinsurance recoveries.

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

Financial risk

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

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

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

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

(b) Interest rate risk

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

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

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

4 Management of risk

(b) Interest rate risk continued

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 2021 % weighting	31 December 2020 % weighting
Government issued bonds and instruments	4	3
Government supported*	9	13
Mortgage backed instruments – agency	1	–
Corporate bonds	86	84

*Includes supranational debt and agency debt.

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/decrease of 50 basis points in interest yields would result in a charge/credit to members' balances of $4.2 million (2020: $5.3 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 actual or perceived financial strength and be unable to pay amounts in full when due, or that for any other reason they renege on a contract or alter the terms of an agreement.

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

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

The HSL Board considers the reputation of its reinsurance partners and also receives details of recent payment history and the status of any 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 2021	AAA $000	AA $000	A $000	BBB and below $000	Total $000
Financial investments	6,053	88,093	284,928	206,297	585,371
Reinsurers' share of technical provisions: claims outstanding	–	113,163	479,614	–	592,777
Debtors: reinsurance recoverables	–	3,382	12,921	–	16,303
Cash at bank and in hand	–	4,288	87,242	–	91,530
Total	6,053	208,926	864,705	206,297	1,285,981
At 31 December 2020					
Financial investments	22,541	123,299	395,332	164,653	705,825
Reinsurers' share of technical provisions: claims outstanding	–	103,908	82,560	–	186,468
Debtors: reinsurance recoverables	–	4,305	5,082	–	9,387
Cash at bank and in hand	–	12,029	60,479	–	72,508
Total	22,541	243,541	543,453	164,653	974,188

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 2021 and 2020, 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.

4 Management of risk

(d) Liquidity risk continued

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

Table c)

At 31 December 2021	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	152,921	389,536	42,855	59	585,371
Deposits with ceding undertakings	2,388	–	–	–	2,388
Reinsurers' share of technical provisions	318,091	203,311	46,253	25,122	592,777
Debtors	30,092	24,118	–	–	54,210
Cash at bank and in hand	91,530	–	–	–	91,530
Prepayments and accrued income	2,924	–	–	–	2,924
Technical provisions	(682,237)	(164,924)	(93,532)	(13,758)	(954,451)
Creditors	(29,740)	(419,211)	(101)	(9)	(449,061)
Total	(114,031)	32,830	(4,525)	11,414	(74,312)
At 31 December 2020					
Financial investments	217,360	442,186	44,356	1,923	705,825
Reinsurers' share of technical provisions	85,619	41,107	44,727	15,015	186,468
Debtors	64,331	9,184	1,390	–	74,905
Cash at bank and in hand	72,508	–	–	–	72,508
Prepayments and accrued income	3,839	–	–	–	3,839
Technical provisions	(451,902)	(278,423)	(272,079)	(70,002)	(1,072,406)
Creditors	(82,071)	(37)	(266)	–	(82,374)
Total	(90,316)	214,017	(181,872)	(53,064)	(111,235)

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 2021	2021 years	2020 years
Sterling	1.2	0.4
US Dollar	1.7	1.6
Euro	–	–
Canadian Dollar	1.5	1.8

4 Management of risk

(e) Currency risk

The majority of the Syndicate's gross written premium is in US Dollars, consequently movements in 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 or collected in US Dollars.

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

Table e)

At 31 December 2021	US Dollar $000	Sterling $000	Euro $000	Canadian Dollar $000	Total $000
Financial investments	559,663	12,823	–	12,885	585,371
Reinsurers' share of technical provisions	530,163	41,927	16,043	7,118	595,251
Insurance and reinsurance receivables	33,467	14,308	719	257	48,751
Cash at bank and in hand	53,894	30,138	4,372	3,126	91,530
Other assets	109,956	(70,011)	25,782	(10,204)	55,523
Total assets	**1,287,143**	**29,185**	**46,916**	**13,182**	**1,376,426**
Technical provisions	(998,949)	(43,899)	(26,020)	(7,076)	(1,075,944)
Insurance and reinsurance payables	(448,141)	18,512	(12,048)	290	(441,387)
Other creditors	(7,768)	(428)	(108)	–	(8,304)
Total liabilities	**(1,454,858)**	**(25,815)**	**(38,176)**	**(6,786)**	**(1,525,635)**
Members' balances by currency	**(167,715)**	**3,370**	**8,740**	**6,396**	**(149,209)**
At 31 December 2020					
Financial investments	654,914	41,537	–	9,374	705,825
Reinsurers' share of technical provisions	136,287	34,930	24,910	931	197,058
Debtors	46,045	2,795	1,549	383	50,772
Cash at bank and in hand	48,173	9,425	6,776	8,134	72,508
Other assets	91,721	7,741	374	288	100,135
Total assets	977,151	96,428	33,609	19,110	1,126,298
Technical provisions	(1,135,230)	(41,608)	(66,565)	(7,134)	(1,250,537)
Creditors	(78,118)	16,044	(18,837)	(86)	(80,997)
Other creditors	834	(1,779)	(1,525)	(3)	(2,473)
Total liabilities	(1,212,514)	(27,343)	(86,927)	(7,223)	(1,334,007)
Members' balances by currency	(235,363)	69,085	(53,318)	11,887	(207,709)

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/(decreased) members' balances for the financial year by the amounts shown below:

Table f)

	2021 $000	2020 $000
Sterling	(337)	(6,909)
Euro	(874)	5,332
Canadian Dollar	(640)	(168)

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

4 Management of risk continued

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.

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. This includes cyber security risk, which is the threat posed by the higher maturity of attack tools and methods and the increased motivation of cyber attackers. HSL actively monitors and controls its operational risks. Examples of key operational risks for the Syndicate include IT performance and stability, staff exit rate and the delivery of major projects.

HSL demonstrated continued resilience, 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.

Capital management

The Syndicate's objectives in managing its capital are to:
- satisfy the requirements of its policyholders and regulators; and
- allocate capital efficiently to support strategic objectives.

Capital Framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with Solvency II legislation. Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives. Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements applies at overall and member level respectively, not at syndicate level. Accordingly, the capital requirement is not disclosed in these financial statements.

Lloyd's Capital Setting Process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a one-in-200-year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one-year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group. A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a one-in-200-year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2021 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates. The level of FAL/FIS that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. This capital requirement is based on a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Resources available to meet members' and Lloyd's capital requirements are separately identified in the statement of changes in members' balances. Lloyd's also retains the right to request a callable contribution equal to 3% of capacity from the Syndicate, this will increase to 5% for 2022 year of account.

5 Segmental analysis

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

2021	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	(186)	(184)	7,199	(512)	(4,371)	2,132
Motor – third-party liability	47	47	1,104	(15)	(3,320)	(2,184)
Motor – other classes	(145)	(145)	12,889	(129)	(12,179)	436
Marine aviation and transport	(152)	(152)	3,514	3	(4,380)	(1,015)
Fire and other damage to property	8,707	8,187	592	(2,816)	(6,914)	(951)
Third-party liability	258,255	317,235	(184,172)	(144,510)	(50,359)	(61,806)
Credit and suretyship	631	342	15,346	(65)	(13,073)	2,550
	267,157	325,330	(143,528)	(148,044)	(94,596)	(60,838)
Reinsurance	10,394	8,600	(9,142)	(1,471)	8,793	6,780
Total	277,551	333,930	(152,670)	(149,515)	(85,803)	(54,058)

2020						
Direct insurance						
Accident and health	87	108	8,094	(61)	(10,154)	(2,013)
Motor – third-party liability	15	14	1,591	(478)	(3,123)	(1,996)
Motor – other classes	(960)	26,162	(13,446)	(6,627)	(8,145)	(2,056)
Marine aviation and transport	–	–	15,259	(73)	(941)	14,245
Fire and other damage to property	8,023	8,435	(1,993)	(2,794)	(3,638)	10
Third-party liability	372,423	392,490	(413,884)	(167,045)	20,759	(167,680)
Credit and suretyship	5,061	6,054	(38,320)	(4,245)	15,495	(21,016)
	384,649	433,263	(442,699)	(181,323)	10,253	(180,506)
Reinsurance	3,167	7,095	(45,310)	(2,128)	10,496	(29,847)
Total	387,816	440,358	(488,009)	(183,451)	20,749	(210,353)

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:

	2021 $000	2020 $000
United Kingdom	26,714	17,586
European Union member states	–	162
United States	307,216	420,866
Rest of the world	–	1,744
Total	333,930	440,358

6 Investment return

	2021 $000	2020 $000
Investment income		
Interest income on financial assets	10,378	13,860
Gains on realisation of investments	4,376	4,695
Total investment income	14,754	18,555
Investment expenses and charges		
Investment management expenses	(477)	(161)
Losses on realisation of investments	(2,330)	(1,187)
Total investment expenses and charges	(2,807)	(1,348)

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

	2021 $000	2020 $000
Average amount of Syndicate funds available for investment during the year:		
Sterling	32,167	26,789
Euro	5,173	5,739
US Dollar	633,802	689,029
Canadian Dollar	20,962	16,028
Total Syndicate funds available for investment	692,104	737,585
Annual investment yield		
Sterling	0.4	–
Euro	–	–
US Dollar	–	2.8
Canadian Dollar	(0.1)	3.4
Total annual investment yield percentage	0.0	2.7

Syndicate funds include investments and cash. Annual investment yield excludes investment management charges.

7 Net operating expenses

	2021 $000	2020 $000
Brokerage and commissions	98,421	153,489
Other acquisition costs	3,237	5,243
Change in deferred acquisition costs	27,408	22,266
Administrative expenses	18,901	6,045
Members' standard personal expenses	3,051	3,043
Reinsurers' commissions and profit participations	(1,503)	(6,635)
Total	149,515	183,451

Brokerage and commissions on direct business written was $98.8 million (2020: $152.4 million). Administrative expenses include fees payable to the auditors and its associates.

	2021 $000	2020 $000
Auditors' remuneration		
Fees payable to the Syndicate's auditors for the audit of these annual accounts	257	154
Fees payable to the Syndicate's auditors and its associates in respect of other services pursuant to legislation	58	51
Total	315	205

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 (2020: nil). The following salary and related costs were recharged during the year.

	2021 $000	2020 $000
Wages and salaries	6,831	4,617
Social security costs and other pension costs	1,259	586
Total	8,090	5,203

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

	2021 $000	2020 $000
Directors' emoluments	360	337

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

	2021 $000	2020 $000
Underwriter's emoluments	81	77

9 Financial investments

	2021 fair value $000	2021 cost $000	2020 fair value $000	2020 cost $000
Debt securities and other fixed income securities	578,544	600,951	699,158	696,387
Shares and other variable yield securities and units in unit trusts	6,457	6,457	6,518	6,518
Derivative financial assets	370	–	149	–
Total	585,371	607,408	705,825	702,905

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 debtors.

Fair value hierarchy

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

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

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

2021	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Debt securities and other fixed income securities	86,748	491,796	–	578,544
Shares and other variable yield securities and units in unit trusts	–	–	6,457	6,457
Derivative financial assets	–	370	–	370
Total	86,748	492,166	6,457	585,371

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	147,992	551,166	–	699,158
Shares and other variable yield securities and units in unit trusts	–	–	6,518	6,518
Derivative financial assets	–	149	–	149
Total	147,992	551,315	6,518	705,825

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

	2021 $000	2020 $000
Balance at 1 January	6,518	1,394
Fair value gains or losses through profit and loss	–	–
Foreign exchange gain	(61)	46
Purchases	–	5,078
Settlements	–	–
Balance at 31 December	6,457	6,518
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.

2021	Gross contract notional amount $000	Fair value of assets $000	Fair value of liabilities $000	Net balance sheet position asset/(liability) $000
Foreign exchange forward contracts	42,082	370	–	370

2020	Gross contract notional amount $000	Fair value of assets $000	Fair value of liabilities $000	Net balance sheet position asset/(liability) $000
Foreign exchange forward contracts	18,776	149	(557)	(408)

Foreign exchange forwards
During 2021 and 2020, the Syndicate entered into a series of conventional forward contracts in order to avoid exchange volatility on Sterling and Euro denominated monetary assets. The contracts required the Syndicate to forward sell a fixed amount of Sterling and Euros for US Dollars at pre-agreed exchange rates.

The investment return in 2021 and 2020 on these foreign exchange forwards is disclosed in note 6.

10 Technical provisions

2021	Gross provisions $000	Reinsurance assets $000	Net $000
Claims incurred:			
Balance at 1 January	1,072,406	(186,468)	885,938
Over/under-provision in respect of prior claims and claim adjustment expenses	(61,357)	48,519	(12,838)
Expected cost of current year claims	214,027	(11,440)	202,587
Claims paid for claims settled in year	(267,556)	192,269	(75,287)
Acquisitions, divestments and transfers*	–	(636,785)	(636,785)
Effect of movements in exchange rates	(3,069)	1,128	(1,941)
Balance at 31 December	954,451	(592,777)	361,674
Claims reported and claims adjustment expenses	327,432	(251,350)	76,082
Claims incurred but not reported	627,019	(341,427)	285,592
Unexpired risk reserve	–	–	–
Balance at 31 December	954,451	(592,777)	361,674
Unearned premiums:			
Balance at 1 January	178,131	(10,590)	167,541
Premiums written during the year	277,551	(40,609)	236,942
Premiums earned during the year	(333,930)	48,724	(285,206)
Effect of movements in exchange rates	(259)	1	(258)
Balance at 31 December	121,493	(2,474)	119,019
Deferred acquisition costs:			
Balance at 1 January	72,163	(1,096)	71,067
Acquisition costs written	98,421	(1,037)	97,384
Acquisition costs earned	(125,829)	1,503	(124,326)
Effect of movements in exchange rates	(3)	–	(3)
Balance at 31 December	44,752	(630)	44,122

10 Technical provisions continued

2020	Gross provisions $000	Reinsurance assets $000	Net $000
Claims incurred:			
Balance at 1 January	837,862	(165,038)	672,824
Over/under-provision in respect of prior claims and claim adjustment expenses	107,697	(7,944)	99,753
Expected cost of current year claims	380,312	(60,830)	319,482
Claims paid for claims settled in year	(258,923)	49,888	(209,035)
Effect of movements in exchange rates	5,458	(2,544)	2,914
Balance at 31 December	1,072,406	(186,468)	885,938
Claims reported and claims adjustment expenses	393,749	(83,067)	310,682
Claims incurred but not reported	678,657	(103,401)	575,256
Unexpired risk reserve	–	–	–
Balance at 31 December	1,072,406	(186,468)	885,938
Unearned premiums:			
Balance at 1 January	222,987	(26,657)	196,330
Premiums written during the year	387,816	(29,042)	358,774
Premiums earned during the year	(440,358)	48,025	(392,333)
Effect of movements in exchange rates	7,686	(2,916)	4,770
Balance at 31 December	178,131	(10,590)	167,541
Deferred acquisition costs:			
Balance at 1 January	91,320	(4,794)	86,526
Acquisition costs written	153,489	(2,583)	150,906
Acquisition costs earned	(175,755)	6,636	(169,119)
Effect of movements in exchange rates	3,109	(355)	2,754
Balance at 31 December	72,163	(1,096)	71,067

*During the year the Syndicate completed two loss portfolio transfers (LPT) securing coverage for potential adverse development on historical liabilities for selected lines of business. The Syndicate concluded that the LPTs transfer significant risk and accounts for the arrangements by recognising a reinsurance asset, a funds withheld balance in creditors arising out of reinsurance operations, and a net loss at inception in outward reinsurance premium.

Under the terms of the first LPT agreement, the Syndicate secured coverage for potential adverse development in respect of insurance liabilities of $558 million for a consideration of $583 million. $60 million of the consideration was paid at the inception date, and the remaining amount deposited into a funds withheld account (FWH). Recoveries under the contract are first deducted from the FWH balance which then attracts a guaranteed annual interest income. The $25 million excess consideration over liabilities is recognised as outward insurance premium in the income statement.

Under the terms of the second LPT agreement, the Syndicate secured coverage for potential adverse development in respect of insurance liabilities of $79.5 million, on healthcare lines. The consideration paid was $80 million. The $0.5 million excess consideration over liabilities is recognised as outward insurance premium in the income statement.

The Syndicate has material exposure to losses arising out of the Covid-19 pandemic and currently reserves $13.9 million (2020: $66.3 million) net of reinsurance for these claims. The ultimate amounts of these claims are subject to a higher-than-normal level of uncertainty in the best estimate at this stage of development. Consequentially, in measuring the liabilities, the Syndicate has included an allowance for risk and uncertainties that is above the best estimate to reflect the early stage in the claim development process. In determining the 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, as described in note 4(c). Changes to this set of assumptions and estimate could materially affect the amount of reinsurers' share of the claims.

11 Debtors arising out of direct insurance operations

	2021 $000	2020 $000
Amounts due from intermediaries		
Due within one year	7,385	29,041
Due after one year	21,701	4,378
Total	29,086	33,419

12 Debtors arising out of reinsurance operations

	2021 $000	2020 $000
Amounts due from intermediaries		
Reinsurance recoverable (due within one year)	16,303	9,385
Ceding insurers under reinsurance business (due within one year)	945	7,315
Ceding insurers under reinsurance business (due after one year)	2,417	653
Total	19,665	17,353

13 Other debtors

	2021 $000	2020 $000
Amounts owed from fellow subsidiary of managing agent	142	18,811
Other	5,317	5,322
Total	5,459	24,133

14 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 2021. 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	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	2020 $000	2021 $000
Estimate of cumulative claims:										
At end of underwriting year one	130,625	100,631	144,458	159,735	207,886	189,137	166,480	130,632	151,228	85,625
One year later	239,334	232,249	278,347	358,503	495,436	348,098	309,158	346,459	265,176	
Two years later	256,626	233,517	289,938	348,549	464,122	352,833	322,011	307,777		
Three years later	252,403	246,008	304,556	384,724	515,148	385,249	347,702			
Four years later	243,920	252,297	313,343	415,136	568,817	386,656				
Five years later	232,664	259,962	315,373	438,517	558,212					
Six years later	229,354	258,497	314,462	432,766						
Seven years later	225,088	265,701	311,574							
Eight years later	223,228	266,238								
Nine years later	229,598									
Cumulative payments	(212,522)	(244,315)	(294,814)	(386,170)	(455,289)	(273,783)	(197,032)	(129,605)	(48,260)	(3,751)
Estimated balance to pay	17,076	21,923	16,760	46,596	102,923	112,873	150,670	178,172	216,916	81,874
Provision in respect of prior years										8,668
Total gross provision included in the balance sheet										954,451

Pure underwriting year Net of reinsurance	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	2020 $000	2021 $000
Estimate of cumulative claims:										
At end of underwriting year one	91,029	87,649	99,970	123,437	163,138	161,776	133,015	118,250	139,434	79,646
One year later	187,176	208,507	196,953	266,637	378,289	301,449	254,066	283,129	239,163	
Two years later	195,728	206,414	191,115	256,571	347,150	310,270	268,969	55,215		
Three years later	189,346	208,060	197,618	278,086	381,114	341,422	146,646			
Four years later	182,429	210,470	201,995	295,794	424,464	237,984				
Five years later	178,214	204,775	200,816	314,336	339,914					
Six years later	166,927	204,187	201,524	270,407						
Seven years later	164,773	211,576	188,741							
Eight years later	164,349	196,529								
Nine years later	157,270									
Cumulative payments	(158,165)	(197,041)	(189,147)	(258,355)	(321,179)	(216,189)	(119,779)	(52,405)	(35,259)	(3,034)
Estimated balance to pay	(895)	(512)	(406)	12,052	18,735	21,795	26,867	2,810	203,904	76,612
Provision in respect of prior years										712
Total net provision included in the balance sheet										361,674

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

15 Creditors arising out of direct insurance operations

	2021 $000	2020 $000
Amounts due to intermediaries		
Due within one year	17,560	51,948
Due after one year	–	–
Total	17,560	51,948

16 Creditors arising out of reinsurance operations

	2021 $000	2020 $000
Amounts due to intermediaries		
Due within one year	4,506	24,169
Due after one year	419,321	4,880
Total	423,827	29,049

17 Other creditors

	2021 $000	2020 $000
Amounts owed to fellow subsidiary of managing agent	1,941	26
Derivative financial liability	–	557
Other	5,733	794
Total	7,674	1,377

18 Accruals and deferred income

	2021 $000	2020 $000
Deferred reinsurance commission	630	1,096

The balance above relates to deferred reinsurers' commission.

19 Related parties

Related companies

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

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

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

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

Hiscox Insurance Company (Bermuda) Limited, a wholly owned direct subsidiary of Hiscox Ltd, is a Class 4 insurer in Bermuda authorised by the Bermuda Monetary Authority. It supplies some risk modelling services to HSL.

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

19 Related parties

Related companies continued

Hiscox 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 3624. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Inc..

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 3624. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Agencies Limited.

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

Hiscox Ltd indirectly owns a 35.37% holding in Media Insurance Brokers International Limited, the holding company of an FCA authorised non-life insurance intermediary Media Insurance Brokers Limited which currently places business with various carriers, including Syndicate 3624. Media Insurance Brokers Limited is not obliged to place business with any particular carrier and these arrangements are subject to review from time to time by Media Insurance Brokers Limited.

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

Underwriting divisions

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

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

Balance sheet net assets and (liabilities) outstanding	2021 $000	2020 $000
Other HSL managed Syndicates	–	–
Hiscox Ltd subsidiaries (intermediary services)	6,667	(17,626)
Hiscox Ltd subsidiaries (insurance)	1,483	6,073
Hiscox Ltd subsidiaries (other)	2,596	14,048

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

Net income and (expenses) reflected in the profit and loss	2021 $000	2020 $000
Other HSL managed Syndicates	–	–
Hiscox Ltd subsidiaries (intermediary services)	(97,445)	(77,056)
Hiscox Ltd subsidiaries (insurance)	2,151	461
Hiscox Ltd subsidiaries (other)	(12,082)	(7,297)

Hiscox Syndicates Limited charges no managing agent fees or profit commission to Syndicate 3624 (2020: nil).

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

20 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.

21 Post balance sheet event

On 1 March 2022, the Syndicate completed a loss portfolio transfer (LPT) with a third party to reinsure its casualty reinsurance business. Under the terms of the agreement the reinsurer assumes historical liabilities for casualty lines in run-off up to $239 million shared between Syndicate 3624 and another related syndicate. The net impact to the income statement is not material.

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