Accounts Disclaimer

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

HISCOX

Report and Accounts
2020

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 Syndicate 6104. HSL is an indirectly wholly owned subsidiary of Hiscox Ltd.

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

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

Managing agent's company number
02590623

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

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 2020.

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

Results
The result for Syndicate 3624 in calendar year 2020 is a loss of $194.4 million (2019: loss of $15.9 million, as restated). The 2020 results were materially impacted by Covid-19 losses totalling $66.3 million, net of reinsurance. These losses primarily related to US liability (errors and omissions) exposures, and to a lesser extent event and media cancellations in the UK. Covid-19 is an unprecedented event for the insurance industry and the effects of it as a loss event remain both ongoing and uncertain. In measuring the liabilities the Syndicate has therefore included an allowance for risk and uncertainties above the best estimate. In addition to the impact of Covid-19 the Syndicate was adversely impacted in the year by material adverse prior year development on US liability (errors and omissions) and general liability business which drove a significant deterioration in the performance of the Syndicate compared to 2019.

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

	2020 $m	2019 (restated)* $000	% change
Gross premiums written	387.8	408.1	(5.0)
Gross premiums earned	440.4	468.3	(6.0)
Net premiums earned	392.3	418.0	(6.1)
Total recognised loss for the year	(194.4)	(15.9)	1122.6
Claims ratio (%)	107	70	37
Commission ratio (%)	45	39	6
Expense ratio (%)	2	1	1
Combined ratio (%)	154	110	44

*See note 19.

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 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 (%)

	2020	2019
UK	4	5
Europe	–	3
North America	96	91
Asia	–	1
Rest of the world	–	–

Geographical premiums written settlement currency (%)

	2020	2019
Sterling	3	2
Euro	–	2
US Dollar	97	96
Canadian Dollar	–	–

Review of the business

The result for the year was a loss of $194.4 million (2019: loss of $15.9 million, as restated). The written premium by class of business is shown below:

Written premium by class of business ($m)

Division	2020 Gross premiums written $m	2019 Gross premiums written $m
Cyber	54.3	78.5
US general liability	78.8	82.0
US liability	201.9	231.1
US property	0.0	4.1
Product recall	1.1	0.7
Technology, media and telecoms	48.6	20.2
Reinsurance	3.2	(7.3)
Other	(0.1)	(1.2)
Total	387.8	408.1

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 number of lines have either been discontinued or transferred to Syndicate 33 for reasons of management and operational efficiency. Syndicate 3624 now exclusively serves our retail business units in the UK and the USA.

The principal classes of business written by the Syndicate include:

Hiscox Inc.

The following classes are written exclusively through Hiscox Inc., Hiscox USA's service company. The Syndicate pays a commission to Hiscox Inc. 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', general liability and financial lines.

US property

This account includes commercial property business written through wholesale brokers in the USA and a construction account which is now in run-off.

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 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.

2021 and the future

For 2021, the Syndicate has maintained the stamp capacity at $547 million (£400 million).

Years of account

	2015	2016	2017	2018	2019	2020	2021
Capacity (£m)	350	400	460	400	360	400	**400**
Capacity ($m)*	479	547	629	547	492	547	**547**

*Converted at the closing rate at 31 December 2020.

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 requiredby 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'sand has three links:

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

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

Lloyd's works in co-operation with insurance regulators in the USA and other parts of the world to 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 $19.7 million (2019: $22.3 million) equating to a return of 2.6% (2019: 3.6%). The Syndicate's invested assets totalled $705.8 million at 31 December 2020 (2019: $590.6 million).

Encouraged that the end of the pandemic is in sight given the arrival of vaccines, the assets of the most affected sectors of the economy surged on the expectation that economic activity may improve markedly in 2021. However, current market optimism is set against a background of surging virus cases, additional lockdowns and slowing economic activity in the short term.

Bond markets produced better than expected returns in 2020. Government bond yields fell significantly and corporate bond spreads returned to levels seen before the pandemic, increasing the returns on bonds. Interest rates remain close to zero, or negative, across the developed world.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing theSyndicate is set out in note 4. In response to the UK's decisionto leave the EU, HSL and Lloyd's made some necessary changes to its business. These will ensure continuity of cover to all its customers with European risks, as set out in note 18. Syndicate 3624 is now using the Lloyd's Brussels platform to transact European Union risks. Lloyd's Brussels benefits from the market's financial strength through the Central Fund and has the same financial ratings as Lloyd's: A.M. Best A (Excellent), S&P A+ (Strong) and Fitch AA- (Very strong). The Company is authorised and regulated by the National Bank of Belgium and capitalised under Solvency II rules.

Directors' interests

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

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

Disclosure of information to the auditors

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

Annual General Meeting

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

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

This year, we therefore give notice that:

- Hiscox Syndicates Limited does not propose to hold an AGM of the members of Syndicate 3624 in 2021;
- PwC will be deemed to be re-appointed as the Syndicate's registered auditor pursuant to the 2008 Regulations;
- members may object to the matters set out above within 21 days of this notice.

If no objections to this are received from any members within the specified period, we shall notify Lloyd's to that effect.
If any objections are received, depending on the level or nature of such objections, we shall then consider whether to:

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

By order of the Board

B E Masojada
Group Chief Executive
10 March 2021

Statement of managing agent's responsibilities
Hiscox Syndicate 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 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Based on our understanding of the Syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to revenue recognition and management override of controls. Audit procedures performed included:
- discussions with senior management involved in the risk and compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessment of any matters reported on the Syndicate's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- reading key correspondence with Lloyd's, the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- reviewing relevant meeting minutes including those of the Audit Committee;
- testing journal entries identified in accordance with our risk assessment;
- identifying and testing estimated premium income on a sample basis; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from rror, 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 in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

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

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

Year ended 31 December 2020	Notes	2020 $000	2019 (restated)* $000
Earned premiums, net of reinsurance			
Gross premiums written	5	387,816	408,141
Outward reinsurance premiums		(29,042)	(32,658)
Net premiums written		358,774	375,483
Change in the provision for unearned premiums:			
Gross amount		52,542	60,155
Reinsurers' share		(18,983)	(17,630)
Change in the net provision for unearned premiums		33,559	42,525
Earned premiums, net of reinsurance		392,333	418,008
Allocated investment return transferred from the non-technical account		19,734	22,271
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount*		(258,923)	(319,394)
Reinsurers' share		49,888	82,620
Net claims paid		(209,035)	(236,774)
Change in the provision for claims:			
Gross amount		(229,086)	(25,226)
Reinsurers' share		18,886	(29,943)
Change in the net provision for claims		(210,200)	(55,169)
Claims incurred, net of reinsurance		(419,235)	(291,943)
Net operating expenses*	7, 8	(183,451)	(166,755)
Balance on the technical account for general business		(190,619)	(18,419)

*See note 19.

The notes on pages 16 to 36 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 2020	Notes	2020 $000	2019 (restated)* $000
Balance on the technical account for general business		(190,619)	(18,419)
Investment income	6	18,555	27,965
Unrealised gains on investments		5,936	1,740
Investment expenses and charges	6	(1,348)	(7,434)
Unrealised losses on investments		(3,409)	–
Allocated investment return transferred to general business technical account		(19,734)	(22,271)
Foreign exchange (losses)/gains*		(3,744)	2,551
Loss for the financial year*		(194,363)	(15,868)

*See note 19.

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 36 form an integral part of these annual accounts.

Balance sheet – assets
Hiscox Syndicate 3624 annual accounts

At 31 December 2020	Notes	2020 $000	2019 (restated)* $000
Investments			
Financial investments	9	705,825	590,625
Reinsurers' share of technical provisions			
Provision for unearned premium	10	10,590	26,657
Claims outstanding	10, 13	186,468	165,038
		197,058	191,695
Debtors			
Debtors arising out of direct insurance operations	11	33,419	13,698
Debtors arising out of reinsurance operations	12	17,353	29,572
Other debtors*		24,133	12,957
		74,905	56,227
Other assets			
Cash at bank and in hand		72,508	84,159
Prepayments and accrued income			
Accrued interest		3,530	3,378
Deferred acquisition costs	10	72,163	91,320
Other prepayments and accrued income		309	278
Total assets		1,126,298	1,017,682

*See note 19.

The notes on pages 16 to 36 form an integral part of these annual accounts.

Balance sheet – liabilities
Hiscox Syndicate 3624 annual accounts

At 31 December 2020	Notes	2020 $000	2019 (restated)* $000
Capital and reserves			
Member's balances*		(207,709)	(69,971)
Technical provisions			
Provision for unearned premium	10	178,131	222,987
Claims outstanding	10, 13	1,072,406	837,862
		1,250,537	1,060,849
Creditors			
Creditors arising out of insurance operations		51,948	174
Creditors arising out of reinsurance operations	14	29,049	20,868
Other creditors		1,377	968
		82,374	22,010
Accruals and deferred income	15	1,096	4,794
Total liabilities		1,126,298	1,017,682

*See note 19.

The notes on pages 16 to 36 form an integral part of these annual accounts.

The syndicate annual accounts on pages 2 to 15 were approved by the Board of Hiscox Syndicates Limited on 10 March 2021 and were signed on its behalf by

B E Masojada
Group Chief Executive

Statement of changes in member's balances
Hiscox Syndicate 3624 annual accounts

Year ended 31 December 2020	2020 $000	2019 (restated)* $000
Member's balances brought forward at 1 January	(69,971)	(91,997)
Total recognised (losses) for the year*	(194,363)	(15,868)
Collection of losses	56,625	37,894
Member's balances carried forward at 31 December*	(207,709)	(69,971)

*See note 19.

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 2020	2020 $000	2019 (restated)* $000
Net cash flows from operating activities		
Loss for the year*	(194,363)	(15,868)
Increase/(decrease) in gross technical provisions	189,688	(32,514)
(Increase)/decrease in reinsurers' share of gross technical provisions	(5,363)	45,911
(Increase)/decrease in debtors	(7,502)	62,956
Increase/(decrease) in creditors	59,955	(32,189)
Movement in other assets/liabilities*	4,509	(8,456)
Investment return	(19,734)	(22,271)
Net cash inflows/(outflows) from operating activities	27,190	(2,431)
Net cash flows from investing activities		
Purchase of debt instruments	(987,527)	(1,280,068)
Sale of debt instruments	879,065	1,201,400
Settlement of derivatives	132	228
Investment income received	13,700	14,207
Foreign exchange	(1,845)	(1,693)
Net cash flows from financing activities		
Collection of losses	56,625	37,894
Net decrease in cash and cash equivalents	(12,660)	(30,463)
Effect of exchange rates on cash and cash equivalents	1,009	(169)
Cash and cash equivalents at the beginning of the year	84,159	114,791
Cash and cash equivalents at the end of the year	72,508	84,159

*See note 19.

Included within cash and cash equivalents are balances totalling $15.7 million (2019: $8.5 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 2020. 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. The key judgements applied to the scenario analysis and stress testing is the likely time period of the lockdown periods, the size of any dispute on reinsurance recoveries and the size of the natural catastrophe event. An aggregated scenario such as this, and the sequence of events it involves, is considered to be remote and there are mitigating recovery actions that can be taken to restore the capital position to the Syndicate's target range.

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

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

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

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

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

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

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

1 Basis of preparation continued

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

2 Accounting policies

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

2(a) Premiums

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

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

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

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.

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

The benefits to which the Syndicate is entitled under outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within assets) as well as longer-term receivables (classified within assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from, or due to, reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

2(e) Unexpired risk

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

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

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

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

2 Accounting policies

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

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

2(g) Investment return

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

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

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

2(h) Foreign currencies

The functional currency of the Syndicate is US Dollars. Assets, liabilities, revenues and costs 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) Impairment of assets

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

For financial assets, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

2(k) Bad debts

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

2(l) Reinsurers' commissions and profit participations

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

2(m) 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(n) Cash at bank and in hand

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

2(o) Functional currency and presentational currency

The functional and presentational currency of the Syndicate is US Dollars which is the currency of the primary economic environment in which the Syndicate operates.

3 Judgements and key sources of estimation uncertainty

In the application of the accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses during the year.

In 2020, Covid-19 has had a significant impact on market conditions and the business. Estimates and their underlying assumptions continue to be reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Where an estimate has been made in response to Covid-19, additional disclosure has been provided in the relevant note to provide context to the figures presented.

3 Judgements and key sources of estimation uncertainty continued

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

3(a) Valuation of general insurance contract liabilities

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

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

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

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

3(b) Premium recognition

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

Insurance risk

The predominant risk to which the Syndicate is exposed is insurance risk which is assumed through the underwriting process. Insurance risk can be subcategorised into: (i) underwriting risk including the risk of 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.

4 Management of risk

(i) Underwriting risk continued

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 reflect the areas that represent significant exposures for the Syndicate. The events are extreme, and as yet untested, and as such estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodelled risks. This means that should a realistic disaster actually occur, the Syndicate's final ultimate losses could materially differ from those estimates modelled by management.

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

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

The specific insurance risks accepted by the Syndicate 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.

Property risks

The Syndicate directly underwrites a diverse range of property risks. Property contracts cover fixed and moveable assets such as ships and other vessels, cargo in transit, energy platforms and installations, pipelines, satellites, commercial buildings, industrial plants and machinery. These assets are typically exposed to natural catastrophe, large loss events or attritional claims arising from conventional hazards such as collision, flooding, fire and theft. For this reason the Syndicate accepts major property insurance risks for periods of mainly one year so that each contract can be repriced on renewal to reflect the continually evolving risk profile. Certain specialist lines such as warranty which can typically have policy periods of between three and seven years.

Casualty risks

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

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

(ii) Reserving risk

Reserving risk is defined as the risk that reserves set in respect of insurance claim losses are ultimately insufficient to fully settle these claims and associated expenses. This definition also applies to reserves which have been set previously.

The Syndicate's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 3(a).

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

4 Management of risk

(ii) Reserving risk continued

Booked reserves include a net margin of $73.2 million (2019: $61.2 million), representing 8.1% (2019: 8.7%) 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:

- existing exposures, reinsurance coverage and, from a forward-looking perspective, the underwriting functions develop a projection of exposures taking into account changes to coverage including exclusions and incorporating rate changes; the assessment is undertaken on a portfolio-by-portfolio basis across HSL's geographic footprint;
- handling claims arising from Covid-19 in a fair, consistent and efficient way, and actively settling claims related to US liability (errors and omissions) exposures, and to a lesser extent event and media cancellations in the UK.

Property insurance contracts can take longer than normal to settle. This is because for damage assessments to be agreed, together with difficulties in predicting when the assets can be brought back into full production.

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

Financial risk

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

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

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

Table a)

	31 December 2020 % weighting	31 December 2019 % weighting
Government issued bonds and instruments	3	20
Government supported*	13	12
Asset backed securities	–	1
Mortgage backed instruments – agency	–	–
Mortgage backed securities – non agency	–	1
Corporate bonds	84	66

*Includes supranational debt and agency debt.

4 Management of risk

(b) Interest rate risk continued

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase/decrease of 50 basis points in interest yields would result in a charge/credit to member's balances of $5.3 million (2019: $4.3 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 solvency or be unable to pay amounts in full when due.

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

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

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

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

If a reinsurer fails to pay a claim for any reason, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year.

The HSL Board assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other -publicly available financial information detailing their financial strength and performance 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 2020	AAA $000	AA $000	A $000	BBB and below $000	Total $000
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**
At 31 December 2019					
Financial investments	50,325	161,763	282,720	95,817	590,625
Reinsurers' share of technical provisions: claims outstanding	–	63,066	101,972	–	165,038
Debtors: reinsurance recoverables	–	7,387	7,720	–	15,107
Cash at bank and in hand	–	11,905	72,254	–	84,159
Total	50,325	244,121	464,666	95,817	854,929

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

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

(d) Liquidity risk

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

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

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

4 Management of risk

(d) Liquidity risk continued

Table c)

At 31 December 2020	Less than one year $000	Between one and three years $000	Between three and five years $000	Over five years $000	Total $000
Financial investments	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	(80,441)	204,301	(182,052)	(53,043)	(111,235)
At 31 December 2019 (restated)*					
Financial investments	163,926	388,554	34,017	4,128	590,625
Reinsurers' share of technical provisions	70,556	38,466	42,850	13,166	165,038
Debtors	53,993	1,973	261	–	56,227
Cash at bank and in hand	84,159	–	–	–	84,159
Prepayments and accrued income	3,656	–	–	–	3,656
Technical provisions	(340,235)	(216,675)	(223,665)	(57,287)	(837,862)
Creditors	(21,733)	(122)	(155)	–	(22,010)
Total	14,322	212,196	(146,692)	(39,993)	39,833

*See note 19.

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

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

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

Table d)

At 31 December 2020	2020 years	2019 years
Sterling	0.4	1.4
US Dollar	1.6	1.9
Euro	–	–
Canadian Dollar	1.8	1.9

4 Management of risk

(e) Currency risk

The majority of the Syndicate's gross written premium is in US Dollars, consequently movements in the Sterling, Euro and Canadian Dollar against US Dollar exchange rate may have a material effect on its financial performance and position. The Syndicate's financial assets are denominated in the same currencies as its insurance liabilities, in order to reduce currency exchange volatility from the balance sheet. This profit and loss is distributed 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 2020	US Dollar $000	Sterling $000	Euro $000	Canadian Dollar $000	Total $000
Financial investments	654,914	41,537	–	9,374	705,825
Reinsurers' share of technical provisions	136,287	34,930	24,910	931	197,058
Insurance and reinsurance receivables	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	97,732	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)
Insurance and reinsurance payables	(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)
Member's balances by currency	(235,363)	69,085	(53,318)	11,887	(207,709)
At 31 December 2019 (restated)*					
Financial investments	566,244	8,899	–	15,482	590,625
Reinsurers' share of technical provisions	121,582	48,351	19,820	1,942	191,695
Debtors	37,319	4,310	3,120	138	44,887
Cash at bank and in hand	62,769	12,451	4,577	4,362	84,159
Other assets	96,509	8,075	1,159	573	106,316
Total assets	844,423	82,086	28,676	22,497	1,017,682
Technical provisions	(924,429)	(66,516)	(58,207)	(11,697)	(1,060,849)
Creditors	(21,961)	15,786	(15,752)	(83)	(22,010)
Other creditors	(3,007)	(1,443)	(305)	(39)	(4,794)
Total liabilities	(949,397)	(52,173)	(74,264)	(11,819)	(1,087,653)
Member's balances by currency	(64,974)	29,913	(45,588)	10,678	(69,971)

*See note 19.

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) member's balances for the financial year by the amounts shown below:

Table f)

	2020 $000	2019 $000
Sterling	(6,909)	(2,991)
Euro	5,332	4,559
Canadian Dollar	(168)	(1,068)

The impact on member's 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. HSL actively monitors and controls its operational risks. Examples of key operational risks for the Syndicate include IT performance and stability, staff exit rate and the delivery of major projects.

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

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

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

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

5 Segmental analysis

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

2020	Gross premiums written $000	Gross premiums earned $000	Gross claims incurred $000	Net operating expenses $000	Reinsurance balance $000	Underwriting profit/(loss) $000
Direct insurance						
Accident and health	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)

2019 (restated)*	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	635	4,701	(1,754)	(1,269)	–	1,678
Motor – third-party liability	(18)	870	(1,022)	(204)	–	(356)
Motor – other classes	(110)	5,220	(6,134)	(1,224)	4	(2,134)
Marine aviation and transport	(1,553)	11,351	(16,284)	(2,766)	2,301	(5,398)
Fire and other damage to property	3,613	15,668	4,516	(3,837)	(8,656)	7,691
Third-party liability	408,883	384,363	(276,230)	(148,472)	13,065	(27,274)
Credit and suretyship	4,255	36,915	(29,449)	(6,479)	(5,312)	(4,325)
	415,705	459,088	(326,357)	(164,251)	1,402	(30,118)
Reinsurance	(7,564)	9,208	(18,263)	(2,504)	987	(10,572)
Total	408,141	468,296	(344,620)	(166,755)	2,389	(40,690)

*See note 19.

5 Segmental analysis continued

All premiums were concluded in the UK. The geographical analysis of gross premiums earned by destination, as a proxy for risk location, is as follows:

	2020 $000	2019 $000
United Kingdom	17,586	24,297
Other European Union member states	162	12,363
United States	420,866	416,689
Rest of the world	1,744	14,947
Total	440,358	468,296

6 Investment return

	2020 $000	2019 $000
Investment income		
Interest income on financial assets	13,860	15,048
Gains on realisation of investments	4,695	12,917
Total investment income	18,555	27,965
Investment expenses and charges		
Investment management expenses	(161)	(510)
Losses on realisation of investments	(1,187)	(6,924)
Total investment expenses and charges	(1,348)	(7,434)

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

	2020 $000	2019 $000
Average amount of Syndicate funds available for investment during the year:		
Sterling	26,789	263,645
Euro	5,739	67,941
US Dollar	689,029	1,125,472
Canadian Dollar	16,028	113,439
Total Syndicate funds available for investment	737,585	1,570,497
Annual investment yield		
Sterling	–	1.8
Euro	–	0.5
US Dollar	2.8	3.6
Canadian Dollar	3.4	2.3
Total annual investment yield percentage	2.7	3.1

Syndicate funds include investments and cash.

7 Net operating expenses

	2020 $000	2019 (restated)* $000
Brokerage and commissions	153,489	160,715
Other acquisition costs	5,243	6,073
Change in deferred acquisition costs	22,266	10,898
Administrative expenses	6,045	7,077
Member's standard personal expenses	3,043	3,038
Reinsurers' commissions and profit participations	(6,635)	(10,999)
Total	183,451	176,802

*See note 19.

7 Net operating expenses continued

Brokerage and commissions on direct business written was $152.4 million (2019: $163.0 million). Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT).

	2020 $000	2019 $000
Auditors' remuneration		
Fees payable to the Syndicate's auditors for the audit of these annual accounts	154	140
Fees payable to the Syndicate's auditors and its associates in respect of other services pursuant to legislation	51	50
Total	205	190

8 Staff costs

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

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

	2020 $000	2019 $000
Wages and salaries	4,617	5,742
Social security costs and other pension costs	586	857
Total	5,203	6,599

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

	2020 $000	2019 $000
Directors' emoluments	337	549

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

	2020 $000	2019 $000
Underwriter's emoluments	77	87

9 Financial investments

	2020 Fair value $000	2020 Cost $000	2019 Fair value $000	2019 Cost $000
Debt securities and other fixed income securities	699,158	696,387	589,228	567,758
Shares and other variable yield securities and units in unit trusts	6,518	6,518	1,394	1,394
Derivative financial assets	149	–	3	–
Total	705,825	702,905	590,625	569,152

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

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

Fair value hierarchy

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

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

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

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	147,990	551,315	6,518	705,825

2019	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Debt securities and other fixed income securities	159,181	430,047	–	589,228
Shares and other variable yield securities and units in unit trusts	–	–	1,394	1,394
Derivative financial assets	–	3	–	3
Total	159,181	430,050	1,394	590,625

9 Financial investments

Fair value hierarchy continued

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

	2020 $000	2019 $000
Balance at 1 January	1,394	–
Fair value gains or losses through profit and loss	–	–
Foreign exchange gain	46	–
Purchases	5,078	1,394
Settlements	–	–
Balance at 31 December	6,518	1,394
Unrealised gains and (losses) in the year on securities held at the end of the year	–	–

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

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

2019	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	14,083	3	(262)	(259)

Foreign exchange forwards

During 2020 and 2019, 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 2020 on these foreign exchange forwards is disclosed in note 6.

10 Technical provisions

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
Premium written during the year	387,816	(29,042)	358,774
Premium 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

2019 (restated)*	Gross provisions $000	Reinsurance assets $000	Net $000
Claims incurred:			
Balance at 1 January	811,023	(193,479)	617,544
Over/under-provision in respect of prior claims and claim adjustment expenses	46,910	(16,465)	30,445
Expected cost of current year claims	297,710	(36,212)	262,381
Claims paid for claims settled in year	(319,394)	82,620	(236,774)
Effect of movements in exchange rates	1,613	(1,502)	(772)
Balance at 31 December	837,862	(165,038)	672,824
Claims reported and claims adjustment expenses	292,036	(67,672)	224,364
Claims incurred but not reported	545,826	(97,366)	448,460
Unexpired risk reserve	–	–	–
Balance at 31 December	837,862	(165,038)	672,824
Unearned premiums:			
Balance at 1 January	282,340	(44,127)	238,213
Premium written during the year	408,141	(32,658)	375,483
Premium earned during the year	(468,296)	50,288	(418,008)
Effect of movements in exchange rates	802	(160)	642
Balance at 31 December	222,987	(26,657)	196,330
Deferred acquisition costs:			
Balance at 1 January	101,812	(8,455)	93,357
Acquisition costs written	160,715	(7,314)	153,401
Acquisition costs earned	(171,613)	11,000	(160,613)
Effect of movements in exchange rates	406	(25)	381
Balance at 31 December	91,320	(4,794)	86,526

*See note 19.

10 Technical provisions continued

The Syndicate has material exposure to losses arising out of Covid-19 and currently reserved $66.3 million, net of reinsurance for these claims. These losses primarily related to US liability (errors and omissions) exposures, and to a lesser extent event and media cancellations in the UK. Covid-19 is an unprecedented event for the insurance industry and the effects of it as a loss event remain both ongoing and uncertain. The ultimate amounts of these claims are subject to a high degree of uncertainty which, combined with their total size, increases the level of uncertainty in the best estimate of the cost of future claim payments of the Syndicate significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. Consequentially, in measuring the liabilities, the Syndicate has included an allowance for risk and uncertainties that is materially above the best estimate commensurate with the level uncertainty of the claims at this stage of development. In determining the Covid-19-related net claims, the Syndicate estimates the reinsurers' share of the claims by applying a consistent set of assumptions with those in determining the gross claims, considering the individual wording of the reinsurance treaties, and estimating default risks.

11 Debtors arising out of direct insurance operations

	2020 $000	2019 $000
Amounts due from intermediaries		
Due within one year	29,041	9,593
Due after one year	4,378	4,105
Total	33,419	13,698

12 Debtors arising out of reinsurance operations

	2020 $000	2019 $000
Amounts due from intermediaries		
Reinsurance recoverable (due within one year)	9,385	15,107
Ceding insurers under reinsurance business (due within one year)	7,315	14,250
Ceding insurers under reinsurance business (due after one year)	653	215
Total	17,353	29,572

13 Claims development tables

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

Pure underwriting year Gross of reinsurance	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	**2020 $000**
Estimate of cumulative claims:										
At end of underwriting year one	84,924	131,148	101,089	144,893	160,431	208,861	190,286	166,847	130,929	**151,840**
One year later	201,634	240,860	233,698	279,255	360,038	496,762	349,290	309,775	348,153	
Two years later	205,387	258,778	234,908	290,971	350,000	465,397	354,049	322,622		
Three years later	191,601	254,651	247,638	305,697	386,378	516,751	386,417			
Four years later	187,914	246,201	254,034	314,420	417,045	570,639				
Five years later	179,522	234,935	261,707	316,503	440,445					
Six years later	188,568	231,157	260,405	315,572						
Seven years later	195,429	226,755	267,439							
Eight years later	197,704	224,870								
Nine years later	192,937									
Cumulative payments	(168,501)	(212,591)	(242,658)	(292,650)	(371,295)	(426,009)	(239,362)	(137,432)	(64,079)	**(6,495)**
Estimated balance to pay	24,436	12,279	24,781	22,922	69,150	144,630	147,055	185,190	284,074	**145,345**
Provision in respect of prior years										12,544
Total gross provision included in the balance sheet										1,072,406

Pure underwriting year Net of reinsurance	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	**2020 $000**
Estimate of cumulative claims:										
At end of underwriting year one	73,835	91,544	88,092	100,400	123,962	163,930	162,769	133,358	118,544	**140,046**
One year later	176,666	188,698	209,780	197,618	267,713	379,320	302,493	254,654	283,801	
Two years later	181,736	197,699	207,736	191,803	257,569	348,038	311,377	269,441		
Three years later	164,525	191,328	209,499	198,331	279,150	382,197	342,473			
Four years later	157,602	184,402	211,967	202,647	297,015	425,600				
Five years later	150,725	180,148	206,148	201,491	315,546					
Six years later	159,590	168,380	205,640	202,200						
Seven years later	142,300	166,130	213,033							
Eight years later	142,573	165,716								
Nine years later	141,824									
Cumulative payments	(137,928)	(159,569)	(198,983)	(190,042)	(258,131)	(306,830)	(207,635)	(105,731)	(44,465)	**(6,070)**
Estimated balance to pay	3,896	6,147	14,050	12,158	57,415	118,770	134,838	163,710	239,336	**133,976**
Provision in respect of prior years										1,642
Total net provision included in the balance sheet										885,938

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

14 Creditors arising out of reinsurance operations

	2020 $000	2019 $000
Amounts due from intermediaries		
Due within one year	24,169	20,304
Due after one year	4,880	564
Total	29,049	20,868

15 Accruals and deferred income

	2020 $000	2019 $000
Deferred reinsurance commission	1,096	4,794

The balance above relates to deferred reinsurers' commission.

16 Related parties

Related companies

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

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

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

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

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

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

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

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

Hiscox 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.

16 Related parties

Related companies continued

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

Hiscox Ltd indirectly owns a 29.81% holding in White Oak Underwriting Agency Limited, 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	2020 $000	2019 $000
Other HSL managed Syndicates	–	–
Hiscox Ltd subsidiaries (intermediary services)	(17,626)	39,360
Hiscox Ltd subsidiaries (insurance)	6,073	5,612
Hiscox Ltd subsidiaries (other)	14,048	(395)

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

Net income and (expenses) reflected in the profit and loss	2020 $000	2019 $000
Other HSL managed Syndicates	–	–
Hiscox Ltd subsidiaries (intermediary services)	(77,056)	(71,587)
Hiscox Ltd subsidiaries (insurance)	461	1,501
Hiscox Ltd subsidiaries (other)	(7,297)	(11,994)

Hiscox Syndicates Limited charges no managing agent fees or profit commission to Syndicate 3624 (2019: nil).

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

17 Syndicate structure

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

18 Part VII transfer

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

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

On 30 December 2020, the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. (Lloyd's Europe), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% quota share reinsurance agreement whereby Lloyd's Europe reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through reinsurance to close of earlier years of account.

Following the sanction of the scheme by the High Court on 30 November 2020, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Europe, together with cash of $35.6 million. On the same date, under the reinsurance agreement, Lloyd's Europe reinsured the same risks back, together with an equal amount of cash of net $35.6 million. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement and no net impact on the balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the income statement presentation. Outstanding debtor and creditor balance in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

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

19 Prior-year restatement

The prior-year result has been restated for an incorrect calculation of expenses charged during the 2019 calendar year. The expenses spanned both the 2018 and 2019 years of account and did not affect the previous distribution to members. As a result of the prior-year misstatement the annual accounts have been impacted as follows.

Profit and loss account	2019 (as reported) $000	Effect of prior period adjustment as at 31 Dec 2019 $000	2019 (restated) $000
Gross paid claims	(320,277)	883	(319,394)
Net operating expenses	(176,802)	10,047	(166,755)
Foreign exchange gains	2,141	410	2,551
Loss for the financial year	(27,208)	11,340	(15,868)

Balance sheet			
Capital and reserves (member's balances)	(81,311)	11,340	(69,971)
Other debtors	1,617	11,340	12,957

Notes

Hiscox

1 Great St Helen’s
London EC3A 6HX
United Kingdom

T +44 (0)20 7448 6000
E enquiry@hiscox.com
www.hiscoxgroup.com

21471 03/21