Accounts disclaimer

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Report and Accounts
2023

Hiscox Syndicate
3624

23

Directors and administration
Hiscox Syndicate 3624

Managing agent:

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

Directors
R S Childs – Non Executive Chairman (resigned 30 June 2023)
P D Cooper (resigned 21 September 2023)
A Dolphin
T W Harris – Non Executive
T C Huerlimann – Non Executive Chairman (appointed 1 January 2023)
H A Hussain
J Illingworth – Non Executive
H Kam (resigned 27 July 2023)
S E Kemble
P A Lawrence
K J M Markham
J R Musselle
H Rose
A C Winther – Non Executive (resigned 30 March 2023)

Managing agent's registered office
22 Bishopsgate
London
EC2N 4BQ

Managing agent's company number
02590623

Syndicate 3624:

Active underwriter
S E Kemble

Bankers
Lloyds Bank PLC
Citibank
Royal Bank of Canada
Goldman Sachs

Investment manager
Payden & Rygel Global Limited
Fiera Capital Corporation

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

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

The Directors of the managing agent present their report for Syndicate 3624 for the year ended 31 December 2023.

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 2023 is a profit of $14.6 million (2022: loss of $67.2 million). The result has benefitted from an improved investment yield, which has materially offset a $35.0 million outward reinsurance premium for coverage provided under a legacy portfolio transfer (LPT). Prior-year remediation activities have brought the Syndicate back to a profitable core book of business, and underlying performance has been positive despite a reduction in premium. Premium has been impacted by strong competition in cyber and lower new business in miscellaneous errors and omissions, although there has been positive rate in US allied healthcare, and additional premiums within the technology, media and telecoms account. The Syndicate has also experienced favourable prior-year reserve development in the US liability account.

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

	2023 $m	2022 $m	% change
Gross premiums written	246.5	253.3	(2.7)
Gross premiums earned	254.8	251.9	1.2
Net premiums earned	205.3	244.3	(16.0)
Total recognised profit/(loss) for the year	14.6	(67.2)	(121.7)
Claims ratio (%)	60	75	(15)
Commission ratio (%)	43	37	6
Expense ratio (%)	9	8	1
Combined ratio (%)	112	120	(8)

Principal activity
The principal activity of Syndicate 3624 is the transaction of insurance and reinsurance business at Lloyd's of London.

The majority of the Syndicate's insurance business is US business written on a surplus lines basis. Syndicate 3624 trades through the Lloyd's worldwide licences and rating. It also benefits from the Lloyd's brand. Lloyd's and Lloyd's Brussels has an A (Excellent) rating from A.M. Best, AA- (Very strong) rating from S&P, AA- (Very strong) from Fitch and AA- (Very strong) from Kroll Bond Rating Agency.

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

Geographical split of gross premiums written (%)

	2023	2022
UK	10	9
Europe	–	–
North America	90	91
Asia	–	–
Rest of the world	–	–

Geographical premiums written settlement currency (%)

	2023	2022
Sterling	7	8
Euro	1	1
US Dollar	92	91
Canadian Dollar	–	–

Review of the business
The result for the year was a profit of $14.6 million (2022: loss of $67.2 million). The written premium by class of business is shown below:

Written premium by class of business ($m)

Division	2023 Gross premiums written $m	2022 Gross premiums written $m
US general liability	9.5	8.9
US liability	213.4	216.5
Technology, media and telecoms	22.5	27.0
Reinsurance	1.0	0.6
Other	0.1	0.3
Total	246.5	253.3

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 reverted to its original constitution (albeit much larger) as a result of the remediation actions to exit unprofitable lines. Syndicate 3624 now exclusively underwrites through our retail business units in the UK and the USA.

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

US general liability
This account covers a broad spectrum of protection including unexpected and unintentional bodily injury and property damage. This account has been in run-off since 2021 and has now been fully exited with effect from June 2022.

US liability
This account covers the US allied healthcare, architects and engineers, cyber and miscellaneous errors and omissions insurance. US directors and officers' insurance and US financial lines have been in run-off and now fully exited with effect from June 2022.

Technology, media and telecoms
This account provides professional indemnity insurance for the technology and media industries and is sourced from Hiscox owned service companies in the USA, Europe and UK. Media also includes entertainment risks which gives both errors and omissions insurance for TV programmes and films and also production insurance for the filming of TV programmes and films.

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

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

2024 and the future
For 2024, the Syndicate has maintained the stamp capacity at $510 million (£400 million).

Years of account

	2018	2019	2020	2021	2022	2023	2024
Capacity (£m)	400	360	400	400	400	400	400
Capacity ($m)*	510	459	510	510	510	510	510

*Converted at the closing rate at 31 December 2023.

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.

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

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

Lloyd's also retains the right to request a callable contribution of up to 5% 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.

The Syndicate continues to use 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 AA- (Very strong), Fitch AA- (Very strong) and Kroll Bond Rating Agency AA- (Very strong). The Company is authorised and regulated by the National Bank of Belgium and capitalised under Solvency II rules.

Investment report

The investment result for Syndicate 3624 was a gain of $37.7 million (2022: loss of $10.8 million) equating to a positive return of 5.4% (2022: negative return of 1.6%). The Syndicate's invested assets totalled $656.1 million at 31 December 2023 (2022: $555.5 million).

Investment returns have improved during the year with higher coupon income and the reversal of prior-year mark-to-market investment losses. Inflation has been trending lower but remains well above the levels targeted by policymakers. Central banks have stopped tightening, but may keep rates higher for longer and as a result bond markets improved significantly.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Syndicate is set out in note 4.

Directors' interests

None of the Directors of the managing agent who served during the year ended 31 December 2023 were underwriting Names at Lloyd's for the 2021, 2022, 2023 or 2024 years of account.

R S Childs – Non Executive Chairman (resigned 30 June 2023)
P D Cooper (resigned 21 September 2023)
A Dolphin
T W Harris – Non Executive
T C Huerlimann – Non Executive Chairman (appointed 1 January 2023)
H A Hussain
J Illingworth – Non Executive
H Kam (resigned 27 July 2023)
S E Kemble
P A Lawrence
K J M Markham
J R Musselle
H Rose
A C Winther – Non Executive (resigned 30 March 2023)

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 2024;
- 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

Helen Rose
Chief Financial Officer
26 February 2024

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 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 Reports and Accounts (the Annual Report), which comprise: balance sheet – assets and the balance sheet – liabilities as at 31 December 2023; the profit and loss account: technical account – general business and profit and loss account: non-technical – general business, the statement of cash flows, and the statement of changes in members' balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

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

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Syndicate's ability to continue as a going concern for a period of at least twelve 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 2023 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 manual journals and accounting estimates in respect of premiums and insurance claims outstanding. Audit procedures performed by the engagement team included:

- discussions with senior management, including those in the risk and compliance functions, including consideration of known or suspected instances of non-compliance with laws, regulation and fraud;
- reading key correspondence with Lloyd's, 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;
- testing and assessing the appropriateness of insurance claims reserves;
- identifying and testing estimated premium income on a sample basis; and
- designing audit procedures to incorporate unpredictability around the nature, timing and extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Thomas Robb
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 February 2024

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

Year ended 31 December 2023	Notes	2023 $000	2022 $000
Earned premiums, net of reinsurance			
Gross premiums written	5	246,455	253,320
Outward reinsurance premiums		(48,725)	(10,314)
Net premiums written		197,730	243,006
Change in the provision for unearned premiums:			
Gross amount		8,334	(1,462)
Reinsurers' share		(725)	2,728
Change in the net provision for unearned premiums		7,609	1,266
Earned premiums, net of reinsurance		205,339	244,272
Allocated investment return transferred from/(to) the non-technical account		37,706	(10,799)
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount	10	(238,282)	(280,664)
Reinsurers' share	10	145,430	219,580
Net claims paid		(92,852)	(61,084)
Change in the provision for claims:			
Gross amount		34,862	32,876
Reinsurers' share		(65,285)	(155,330)
Change in the net provision for claims		(30,423)	(122,454)
Claims incurred, net of reinsurance		(123,275)	(183,538)
Net operating expenses	7	(107,150)	(108,994)
Balance on the technical account for general business		12,620	(59,059)

The notes on pages 16 to 38 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 2023	Notes	2023 $000	2022 $000
Balance on the technical account for general business		12,620	(59,059)
Investment income	6	23,847	14,787
Unrealised gains on investments		30,323	2,494
Investment expenses and charges	6	(15,752)	(3,866)
Unrealised losses on investments		(712)	(24,214)
Allocated investment return transferred (to)/from general business technical account		(37,706)	10,799
Foreign exchange gains/(losses)		2,028	(8,175)
Profit/(loss) for the financial year		14,648	(67,234)

There are no recognised gains or losses in the accounting year 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 38 form an integral part of these annual accounts.

Balance sheet – assets
Hiscox Syndicate 3624 annual accounts

At 31 December 2023	Notes	2023 $000	2022 $000
Investments			
Financial investments	9	656,086	555,549
Deposits with ceding undertakings		1,019	1,772
Reinsurers' share of technical provisions			
Provision for unearned premium	10	4,492	5,198
Claims outstanding	10, 14	410,459	473,751
		414,951	478,949
Debtors			
Debtors arising out of direct insurance operations	11	32,118	27,489
Debtors arising out of reinsurance operations	12	10,285	14,188
Other debtors	13	2,877	6,038
		45,280	47,715
Other assets			
Cash at bank and in hand		42,245	77,750
Prepayments and accrued income			
Accrued interest		6,210	3,539
Deferred acquisition costs	10	41,136	44,257
Other prepayments and accrued income		4	1
Total assets		1,206,931	1,209,532

The notes on pages 16 to 38 form an integral part of these annual accounts.

Balance sheet – liabilities
Hiscox Syndicate 3624 annual accounts

At 31 December 2023	Notes	2023 $000	2022 $000
Capital and reserves			
Members' balances		(23,852)	(124,399)
Technical provisions			
Provision for unearned premium	10	115,791	123,030
Claims outstanding	10, 14	882,742	915,470
		998,533	1,038,500
Creditors			
Creditors arising out of insurance operations	15	22,776	9,937
Creditors arising out of reinsurance operations	16	205,450	281,741
Other creditors	17	3,691	3,413
		231,917	295,091
Accruals and deferred income	18	333	340
Total liabilities and equity		1,206,931	1,209,532

The notes on pages 16 to 38 form an integral part of these annual accounts.

The syndicate annual accounts on pages 10 to 38 were approved by the Board of Hiscox Syndicates Limited and were signed on its behalf by

Helen Rose
Chief Financial Officer
26 February 2024

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

Year ended 31 December 2023	2023 $000	2022 $000
Members' balances brought forward at 1 January	(124,399)	(149,209)
Total recognised gains/(losses) for the year	14,648	(67,234)
Collection of losses	85,899	92,044
Members' balances carried forward at 31 December	(23,852)	(124,399)

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 2023	2023 $000	2022 $000
Net cash flows from operating activities		
Profit/(loss) for the year	14,648	(67,234)
Decrease in gross technical provisions	(39,967)	(37,444)
Decrease in reinsurers' share of gross technical provisions	63,998	158,109
(Increase)/decrease in debtors	(726)	7,074
Decrease in creditors	(63,452)	(191,516)
Movement in other assets/liabilities	3,879	(5,251)
Investment return	(37,706)	10,799
Net cash outflows from operating activities	(59,326)	(125,463)
Net cash flows from investing activities		
Purchase of debt instruments	(758,289)	(230,410)
Sale of debt instruments	675,751	228,059
Settlement of derivatives	–	–
Investment income received	8,095	10,919
Foreign exchange	11,646	12,607
Net cash flows from financing activities		
Collection of losses	85,899	92,044
Net decrease in cash and cash equivalents	(36,224)	(12,244)
Effect of exchange rates on cash and cash equivalents	719	(1,536)
Cash and cash equivalents at the beginning of the year	77,750	91,530
Cash and cash equivalents at the end of the year	42,245	77,750

Included within cash and cash equivalents are balances totalling $2.2 million (2022: $8.2 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. All amounts have been rounded to the nearest thousand, unless otherwise indicated. Some disclosure items, for example, Syndicate capacity, are presented in Sterling as it is denominated in this currency; US Dollar amounts are converted at the closing rate at 31 December 2023.

The Directors of the managing agent have prepared the annual accounts on a going concern basis. In adopting the going concern basis, the Syndicate's current and forecast solvency and liquidity positions for the next 12 months and beyond has been reviewed. As part of the consideration of the appropriateness of adopting the going concern basis, the Directors used scenario analysis to assess the robustness of the Syndicate's solvency and liquidity positions.

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

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

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

The Syndicate benefits from being part of the Lloyd's capital structure, often referred to as the chain of security, which provides excellent financial security to policyholders and capital efficiency for members. The three elements that make up the Lloyd's capital structure are:
1. syndicate assets – members' working capital
   All premiums received by the Syndicates are held in trust by the managing agents as the first resource for paying policyholders' claims and to fund regulatory deposits. Until all liabilities have been provided for, no profits can be released. Every year, the Syndicates' reserves for future liabilities are independently audited and subject to an actuarial review;
2. funds at Lloyd's – members' capital deposited at Lloyd's
   Each member, whether corporate or individual, must provide sufficient capital to support their underwriting at Lloyd's. Managing agents are required to assess the solvency capital requirement (SCR) for each syndicate that they manage. This sets out how much capital the syndicate requires to cover its underlying business risks at a 99.5% confidence level; and
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 annual accounts.

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,

2 Accounting policies

2(a) Premiums continued

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

Premiums written include estimates for premiums due but not yet received or notified, less an allowance for expected cancellations. For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables, which are not known with certainty at the point of binding the policy. In determining the estimated premium, use is made of information provided by brokers and coverholders, past underwriting experience, the contractual terms of the policy and prevailing market conditions. Subsequently, adjustments to those estimates arise as updated information relating to those pricing variables becomes available, for example, due to declarations obtained on binding authority contracts, reinstatement premium on reinsurance contracts or other policy amendments. Such adjustments are recorded in the period in which they are determined and impact gross premiums written 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. Retroactive insurance contracts that contain significant insurance risk and that have an insurance component and a deposit component are unbundled providing the deposit component can be measured separately. The deposit component is recorded directly into the balance sheet within reinsurers' share of insurance liabilities with a corresponding amount in creditors arising out of reinsurance operations. The reinsurers' share of insurance liabilities relating to the contracts is remeasured at each reporting period with movements taken to the reinsurance recoveries in the income statement. Reinsurance transactions that transfer risk but are retroactive are included in reinsurance assets. The excess of estimated liabilities for claims and claim expenses over the consideration paid is established as a deferred credit at inception. The deferred amounts are subsequently amortised using the recovery method over the settlement period of the reserves and reflected through the claims and claim adjustment expenses line. In transactions where the consideration paid exceeds the estimated liabilities for claims and claim adjustment expenses, a loss is recognised immediately.

2(b) Unearned premiums

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

2(c) Acquisition costs

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

2(d) Claims

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

Claims paid are transactions in the period which have been signed through Lloyd's Central Accounting or Lloyd's Direct Reporting, adjusted for any material backlogs which may occur between cash paid and the claims being signed through. Reinsurers' share of claims paid are all transactions in the period which have been signed through the London Outwards Reinsurance System, adjusted to include an accrual for the balances which have been billed, but remain unsettled at the balance sheet date. Reinsurers' share of claims outstanding is the amount that it is estimated will be recoverable from reinsurers based upon the gross claims provisions having allowed for bad debt. Reinsurance recoveries are estimated by reviewing individual claims including allowance for claims incurred but not reported, and assessing the reinsurance recovery which is expected based on the outwards reinsurance protections. Amounts recoverable from, or due to, reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. While the Directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the annual accounts for the period in which the adjustments are made. The methods used, and estimates made, are reviewed regularly.

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

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

2(e) Unexpired risk

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

2 Accounting policies

2(f) Financial assets and liabilities

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

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

ii. **Debtors and creditors**
Debtors and creditors are primarily non-derivative financial assets and liabilities with fixed or determinable payments and not quoted on an active market. These include amounts due to and from agents, brokers and insurance contract holders.

Debtors are initially recognised when due at transaction price, and where applicable are subsequently measured at amortised cost using the effective interest rate method. The recoverability of these assets is assessed at each balance date and appropriate provision made to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the contract. Where receivable is impaired, the Syndicate reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the profit or loss account.

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

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

2(g) Investment return

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

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

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

2(h) Foreign currency translation

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.

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

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

2(i) Taxation

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

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

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

2(j) Bad debts

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

2(k) Reinsurers' commissions and profit participations

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

2(l) Cash at bank and in hand

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

3 Judgements and key sources of estimation uncertainty

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

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

3 Judgements and key sources of estimation uncertainty

3(a) Valuation of general insurance contract liabilities

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

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

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

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

The Syndicate tests the adequacy of its unearned premium liability by comparing current estimates of future claims and claims handling expenses attributable to the unexpired periods of policies at the balance sheet date which to the unearned premium liability net of acquisition costs. As set out in note 2(e), any deficiency is recognised in the income statement. The related deferred acquisition costs are first written down and any additional liability required is then recognised as an unexpired risk reserve (URR).

3(b) Premium recognition

The gross premiums written are initially based on estimated premium income (EPI) of each contract. EPI estimates are based on information provided by brokers and coverholders, past underwriting experience, the contractual terms of the policy and prevailing market conditions. The EPI estimates are reviewed on a regular basis. As the year of account closes, premiums are adjusted to match the actual signed premium. Gross premiums written under binding authorities are booked as the underlying contracts incept. The Syndicate allocates the expected premium receipts to each period of gross premiums written on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, for example a group of contracts that is exposed to large natural catastrophe risk concentrated in the first or second half of the year, then the allocation is made on the basis of the expected timing of claims incurred.

At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

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

3(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. HSL uses judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. See note 4 for discussion of the related risks. See note 9 for an analysis of the measurement attributes of the financial instruments.

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, although the timing, frequency and severity of claims can fluctuate.

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

Climate risk

Climate risk relates to the range of complex physical, transition and liability risks arising from climate change. This includes the

4 Management of risk

Climate risk continued

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

By design, the established and embedded HSL risk management framework provides a controlled and consistent system for the identification, measurement, mitigation, monitoring and reporting of risks (both current and emerging) and so is structured in a way that allows us to continually and consistently manage the various impacts of climate risk on the risk profile. This is supported by equally robust processes and policies that address climate-related underwriting risks, such as the Group's environmental, social and governance (ESG) exclusions policy which applies to HSL and represents a commitment to reduce steadily and eliminate by 2030 both underwriting and investment exposure to coal-fired power plants and coal mines; Arctic energy exploration, beginning with the Arctic National Wildlife Refuge; oil sands; and controversial weapons such as landmines.

We also consider the training and development requirements of those with oversight responsibilities and accountability for climate matters to ensure we have appropriate awareness and expertise to drive progress. In 2023, this included an externally facilitated climate training session to explore the changing external landscape, with a specific focus on the evolving ESG sentiment, particularly in the USA, and the associated risks and opportunities, and which was attended by and made available to HSL Board Directors. We will continue to build expertise at a senior level in 2024.

Insurance risk

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

(i) Underwriting risk

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

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

Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures and line of business diversification parameters are prepared and reviewed by the HSL management team in order to translate the HSL Board's summarised underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved in advance of each underwriting year.

The HSL Board continually reviews its underwriting strategy throughout each underwriting year in light of evolving market pricing, loss conditions and as opportunities present themselves. The Syndicate's underwriters and HSL management consider underwriting risk at an individual contract level, and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors. To assist with the process of pricing and managing underwriting risk, the Syndicate routinely performs a wide range of activities including the following:

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

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

They also represent areas of potentially significant exposure for the Syndicate. In addition to understanding the loss the Syndicate may suffer from an event, it is important to ensure that the risk models used are calibrated to the risks faced today. This includes recognising and forecasting inflationary trends, updating trends in claims payments, and capturing climate change-related impacts. HSL has a climate risk framework, which is used to assess where research resources should be focused, and models updated, and as a result improves not only the Syndicate's understanding of the potential impact of a changing climate but also the Syndicate's ability to respond.

The selection of extreme loss scenario events is adjusted each year and they are not therefore necessarily directly comparable from one year to the next. The events are extreme, and unprecedented, and as such estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodelled risks. This means that should a realistic disaster actually occur, the Syndicate's final ultimate losses could materially differ from those estimates modelled by management. The Syndicate's insurance contracts include provisions to contain losses,

4 Management of risk

(i) Underwriting risk continued

such as the ability to impose deductibles and demand reinstatement premiums in certain cases.

In addition, in order to manage the Syndicate's exposure to repeated loss events, relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period. In the case of climate-exposed risks specifically, the vast majority of underwriting contracts written are annual in nature and thus can be revised frequently. This flexibility is a key tool for managing the multi-decade challenge of climate risks holistically.

The Syndicate also manages underwriting risk by purchasing reinsurance. Reinsurance protection, such as excess of loss cover, is purchased to mitigate the effect of catastrophes and unexpected concentrations of risk. The scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market. The specific insurance risks accepted by the Syndicate are primarily specialty lines, including Hiscox USA's errors and omissions account, written through Hiscox USA's service company, Hiscox Inc.. This business is written on a surplus lines basis. It also underwrites smaller volumes of casualty and media, entertainment and events where access to Lloyd's licensing is required. The Syndicate also considers climate change to be a cross-cutting risk with potential to impact each existing risk type, rather than a standalone risk. These specific categories are defined for risk review purposes only, as each contains risks specific to the nature of the cover provided. The following describes the policies and procedures used to identify and measure the risks associated with each individual category of business.

Casualty risks

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

The Syndicate's casualty insurance contracts mainly experience low-severity attritional losses. By nature, some casualty losses may take longer to settle than other categories of business. In addition, there is increased potential for accumulation in casualty risk due to the growing complexity of business, technological advances, and greater interconnectivity and interdependency across the world due to globalisation. The Syndicate's pricing strategy for casualty insurance policies is typically based on historical claim frequencies and average claim severities, adjusted for inflation and extrapolated forwards to incorporate projected changes in claims patterns.

The market for cyber insurance is still a relatively immature one, complicated by the fast-moving nature of the threat, as the world becomes even more connected. The risks associated with cyber insurance are multiplying in both diversity and scale, with associated financial and reputational consequences of failing to prepare for them. The Syndicate has focused its cyber expertise on prevention, in addition to the more traditional recovery product.

(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.

Similar to the underwriting risk detailed above, the Syndicate's reserve risks are well diversified. Short-tailed claims are normally notified and settled within 12-to-24 months of the insured event occurring. Those claims taking the longest time to develop and settle typically relate to casualty risks, where legal complexities occasionally develop regarding the insured's alleged omissions or negligence. The length of time required to obtain definitive legal judgments and make eventual settlements exposes the Syndicate to a degree of reserving risk in an inflationary environment.

The final quantum for casualty claims may not be established for many years after the event. A significant proportion of the casualty insurance amounts reserved on the balance sheet may not be expected to settle within 24 months of the balance sheet date. Consequently, our approach is not to recognise favourable experience in the early years of development in the reserving process when setting the booked reserve.

In addressing the impact of inflation HSL focuses on:
- regular case reserve reviews to ensure adequacy;
- uplifts to incurred but not reported (IBNR) reserves to allow for current and future expectations of high inflation rates;
- assessment of rate increases against future inflation to assess loss ratio impacts.

The Syndicate maintains explicit reserve uplifts to allow for the impact of high inflation in recent years. Loss ratios are closely monitored to ensure they include an appropriate allowance for future inflation.

Booked reserves include a net margin of $33.3 million (2022: $37.7 million), representing 6.6% (2022: 9.0%) of net booked reserves. This is the margin above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy.

Financial risk

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.

4 Management of risk

Financial risk continued

The key financial risk for the Syndicate is that the proceeds from its financial assets and investment result generated thereon are not sufficient to fund the obligations. The most important variables that could result in such an outcome relate to the interest rate risk, credit risk, liquidity risk and currency risk. The Syndicate's policies and procedures for managing exposure to these specific categories of risk are detailed below.

(a) Reliability of fair values

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

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

At 31 December 2023, the Syndicate held mortgage backed fixed income securities in its investment portfolio. Together with the Syndicate's investment managers, management continues to monitor the potential for any adverse development associated with this investment exposure through the analysis of relevant factors such as credit ratings, collateral, subordination levels and default rates in relation to the securities held.

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

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

(b) Interest rate risk

Debt and 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 2023 % weighting	31 December 2022 % weighting
Government issued bonds and instruments	20	5
Government supported*	–	6
Mortgage backed instruments – agency	1	1
Corporate bonds	79	88

*Includes supranational debt and agency debt.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase/decrease of 50 basis points in interest yields would result in a charge/credit to members' balances of $7.1 million (2022: $3.1 million).

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

(c) Credit risk

The Syndicate has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in actual or perceived financial strength and be unable to pay amounts in full when due, or that for any other reason they renege on a contract or alter the terms of an agreement.

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

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

4 Management of risk

(c) Credit risk continued

- counterparty risk with respect to cash and cash equivalents, and investments and other deposits including deposits and derivative transactions.

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

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

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

While the rating agencies provide strong analysis on the financials and governance of a reinsurance security, the HSL Board also takes account of qualitative factors. 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. The final score that a security receives will determine how much reinsurance credit risk the Syndicate is willing to have with that security based on the exposure guidelines.

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 a portfolio of typically high-quality corporate and 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 2023	AAA $000	AA $000	A $000	BBB and below $000	Total $000
Financial investments	5,668	178,341	222,931	249,146	656,086
Reinsurers' share of technical provisions: claims outstanding	–	81,054	329,405	–	410,459
Debtors: reinsurance recoverables	–	2,821	5,664	–	8,485
Cash at bank and in hand	–	4,804	37,441	–	42,245
Total	5,668	267,020	595,441	249,146	1,117,275
At 31 December 2022					
Financial investments	5,465	87,349	277,905	184,830	555,549
Reinsurers' share of technical provisions: claims outstanding	–	92,667	381,084	–	473,751
Debtors: reinsurance recoverables	–	8,099	4,498	–	12,597
Cash at bank and in hand	–	2,854	74,896	–	77,750
Total	5,465	190,969	738,383	184,830	1,119,647

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 2023 and 2022, the Syndicate held no material debt or fixed income assets that were past due or impaired beyond their reported fair values. For the current year and prior year, 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. The HSL Board sets limits on the minimum level of cash and maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover unexpected levels of claims and other cash demands. A significant proportion of the Syndicate's investments is in highly-liquid assets which could be converted to cash in a prompt fashion and at minimal expense. The deposits with credit institutions largely comprise short-dated certificates for which an active market exists and which the Syndicate can easily access.

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

4 Management of risk

(d) Liquidity risk continued

Not withstanding the regular interest receipts and also the Syndicate's ability to liquidate these securities and the majority of its other financial instrument assets for cash in a prompt and reasonable manner, the contractual maturity profile of the financial assets and financial liabilities at 31 December was as follows:

Table c)

At 31 December 2023	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	111,194	302,511	230,650	11,731	656,086
Deposits with ceding undertakings	1,019	–	–	–	1,019
Reinsurers' share of technical provisions	156,187	136,650	49,564	68,058	410,459
Debtors	41,550	3,730	–	–	45,280
Cash at bank and in hand	42,245	–	–	–	42,245
Prepayments and accrued income	6,214	–	–	–	6,214
Technical provisions	(380,685)	(311,839)	(91,196)	(99,022)	(882,742)
Creditors	(38,547)	(148,320)	(45,050)	–	(231,917)
Total	(60,823)	(17,268)	143,968	(19,233)	46,644
At 31 December 2022					
Financial investments	188,703	343,676	16,858	6,312	555,549
Deposits with ceding undertakings	1,772	–	–	–	1,772
Reinsurers' share of technical provisions	215,813	139,166	51,452	67,320	473,751
Debtors	43,140	4,575	–	–	47,715
Cash at bank and in hand	77,750	–	–	–	77,750
Prepayments and accrued income	3,540	–	–	–	3,540
Technical provisions	(388,080)	(312,082)	(104,768)	(110,540)	(915,470)
Creditors	(24,355)	(203,669)	(67,067)	–	(295,091)
Total	118,283	(28,334)	(103,525)	(36,908)	(50,484)

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

A significant proportion of the financial investments are in highly liquid assets which could be converted to cash in a prompt fashion and at minimal expense 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 2023	2023 years	2022 years
Sterling	0.4	0.1
US Dollar	2.6	1.4
Euro	–	–
Canadian Dollar	2.2	2.2

4 Management of risk

(e) Currency risk

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

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

Table e)

At 31 December 2023	US Dollar $000	Sterling $000	Euro $000	Canadian Dollar $000	Total $000
Financial investments	637,655	12,595	–	5,836	656,086
Reinsurers' share of technical provisions	379,888	25,423	7,534	2,106	414,951
Insurance and reinsurance receivables	35,947	7,130	(677)	3	42,403
Cash at bank and in hand	25,606	7,993	4,806	3,840	42,245
Other assets	72,659	(27,468)	17,842	(11,787)	51,246
Total assets	1,151,755	25,673	29,505	(2)	1,206,931
Technical provisions	(947,841)	(30,915)	(17,507)	(2,270)	(998,533)
Insurance and reinsurance payables	(234,410)	15,915	(12,144)	2,413	(228,226)
Other creditors	(3,144)	(703)	(177)	–	(4,024)
Total liabilities	(1,185,395)	(15,703)	(29,828)	143	(1,230,783)
Members' balances by currency	(33,640)	9,970	(323)	141	(23,852)

At 31 December 2022	US Dollar $000	Sterling $000	Euro $000	Canadian Dollar $000	Total $000
Financial investments	535,722	11,602	–	8,225	555,549
Reinsurers' share of technical provisions	436,033	28,172	9,877	4,867	478,949
Debtors	33,257	8,245	158	17	41,677
Cash at bank and in hand	62,974	9,167	3,911	1,698	77,750
Other assets	99,948	(44,519)	12,214	(12,036)	55,607
Total assets	1,167,934	12,667	26,160	2,771	1,209,532
Technical provisions	(981,593)	(33,207)	(18,552)	(5,148)	(1,038,500)
Creditors	(293,701)	14,727	(14,034)	1,330	(291,678)
Other creditors	(2,649)	(573)	(124)	(407)	(3,753)
Total liabilities	(1,277,943)	(19,053)	(32,710)	(4,225)	(1,333,931)
Members' balances by currency	(110,009)	(6,386)	(6,550)	(1,454)	(124,399)

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

Table f)

	2023 $000	2022 $000
Sterling	(997)	639
Euro	32	655
Canadian Dollar	(14)	145

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

4 Management of risk continued

Regulatory risk

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

Operational risk

The Syndicate is exposed to the risk of direct or indirect loss resulting from internal processes, people or systems, or from external events. This includes cyber security risk as well as major IT, systems or service failures. HSL actively monitors and controls its operational risks. HSL demonstrated continued resilience, underscoring the benefits of its business model, disciplined risk management and ongoing investment in technology and infrastructure.

Capital management

The Syndicate's objectives in managing its capital are to:

- satisfy the requirements of its policyholders and regulators; and
- allocate capital efficiently to support strategic objectives.

Capital framework at Lloyd's

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

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its solvency capital requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a one-in-200-year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one-year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group. A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a one-in-200-year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's SCR requirement, and the resulting capital is known as the economic capital assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2023 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

5 Segmental analysis

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

2023	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	–	–	(220)	(1)	(180)	(401)
Motor – third-party liability	238	238	(274)	323	(4)	283
Motor – other classes	–	–	3,250	(76)	(3,976)	(802)
Marine aviation and transport	(210)	(210)	(253)	(151)	(1,227)	(1,841)
Fire and other damage to property	5,875	8,014	(6,909)	(3,647)	1,183	(1,359)
Third-party liability	235,695	241,750	(161,316)	(101,120)	925	(19,761)
Credit and suretyship	648	604	(11,728)	(713)	12,076	239
	242,246	250,396	(177,450)	(105,385)	8,797	(23,642)
Reinsurance	4,209	4,393	(25,970)	(1,765)	21,898	(1,444)
Total	246,455	254,789	(203,420)	(107,150)	30,695	(25,086)

2022						
Direct insurance						
Accident and health	(1,158)	(1,158)	(190)	3	169	(1,176)
Motor – third-party liability	93	93	(1,042)	(52)	914	(87)
Motor – other classes	6	6	3,958	(80)	(3,547)	337
Marine aviation and transport	19	19	534	(10)	94	637
Fire and other damage to property	8,026	8,135	6,626	(2,224)	(11,430)	1,107
Third-party liability	241,903	240,650	(242,663)	(104,520)	63,743	(42,790)
Credit and suretyship	792	720	(3,216)	(362)	1,718	(1,140)
	249,681	248,465	(235,993)	(107,245)	51,661	(43,112)
Reinsurance	3,639	3,393	(11,795)	(1,749)	5,003	(5,148)
Total	253,320	251,858	(247,788)	(108,994)	56,664	(48,260)

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:

	2023 $000	2022 $000
United Kingdom	25,479	22,667
European Union member states	–	–
United States	229,310	229,191
Rest of the world	–	–
Total	254,789	251,858

6 Investment return

	2023 $000	2022 $000
Investment income		
Interest income on financial assets	22,688	12,571
Gains on realisation of investments	1,159	2,216
Total investment income	23,847	14,787
Investment expenses and charges		
Investment management expenses	(576)	(636)
Losses on realisation of investments	(15,176)	(3,230)
Total investment expenses and charges	(15,752)	(3,866)

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

	2023 $000	2022 $000
Average amount of Syndicate funds available for investment during the year:		
Sterling	13,169	20,183
Euro	5,688	5,307
US Dollar	663,728	623,998
Canadian Dollar	13,234	18,998
Total Syndicate funds available for investment	695,819	668,486

	2023 %	2022 %
Annual investment yield		
Sterling	3.3	1.4
Euro	3.1	0.2
US Dollar	5.5	(1.6)
Canadian Dollar	4.9	(1.1)
Total annual investment yield percentage	5.5	(1.5)

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

7 Net operating expenses

	2023 $000	2022 $000
Brokerage and commissions	86,455	89,814
Other acquisition costs	1,884	2,138
Change in deferred acquisition costs	3,441	565
Administrative expenses	15,444	15,838
Members' standard personal expenses	1,958	1,703
Reinsurers' commissions and profit participations	(2,032)	(1,064)
Total	107,150	108,994

Brokerage and commissions on direct business written was $85.3 million (2022: $88.2 million). Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT).

	2023 $000	2022 $000
Auditors' remuneration		
Fees payable to the Syndicate's auditors for the audit of these annual accounts	279	265
Fees payable to the Syndicate's auditors and its associates in respect of other services pursuant to legislation	63	60
Total	342	325

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 (2022: $nil). The following salary and related costs were recharged during the year.

	2023 $000	2022 $000
Wages and salaries	4,438	3,584
Social security costs and other pension costs	903	843
Total	5,341	4,427

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

	2023 $000	2022 $000
Directors' emoluments	313	306

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

	2023 $000	2022 $000
Underwriter's emoluments	9	29

9 Financial investments

	2023 fair value $000	2023 cost $000	2022 fair value $000	2022 cost $000
Debt securities and other fixed income securities	650,396	649,983	550,402	580,095
Shares and other variable yield securities and units in unit trusts	5,690	6,077	5,133	5,133
Derivative financial assets	–	–	14	–
Total	656,086	656,060	555,549	585,228

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

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

Fair value hierarchy

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

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; and
- level 3 – inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

2023	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Debt securities and other fixed income securities	171,000	479,396	–	650,396
Shares and other variable yield securities and units in unit trusts	–	–	5,690	5,690
Derivative financial assets	–	–	–	–
Total	171,000	479,396	5,690	656,086

9 Financial investments

Fair value hierarchy continued

2022	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Debt securities and other fixed income securities	62,067	488,335	–	550,402
Shares and other variable yield securities and units in unit trusts	–	–	5,133	5,133
Derivative financial assets	–	14	–	14
Total	62,067	488,349	5,133	555,549

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

	2023 $000	2022 $000
Balance at 1 January	5,133	6,457
Fair value gains or losses through profit and loss	243	(620)
Foreign exchange gain/(loss)	314	(704)
Purchases	–	–
Settlements	–	–
Balance at 31 December	5,690	5,133
Unrealised gains/(losses) in the year on securities held at the end of the year	243	(620)

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.

2023	Gross contract notional amount $000	Fair value of assets $000	Fair value of liabilities $000	Net balance sheet position liability $000
Foreign exchange forward contracts	9,592	–	(136)	(136)

2022	Gross contract notional amount $000	Fair value of assets $000	Fair value of liabilities $000	Net balance sheet position liability $000
Foreign exchange forward contracts	1,587	14	(270)	(256)

Foreign exchange forwards

During 2023 and 2022, 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 2023 and 2022 on these foreign exchange forwards is disclosed in note 6.

10 Technical provisions

2023	Gross provisions $000	Reinsurance assets $000	Net $000
Claims incurred:			
Balance at 1 January	915,470	(473,751)	441,719
Over/under-provision in respect of prior claims and claim adjustment expenses	67,322	(75,897)	(8,575)
Expected cost of current year claims	136,098	(4,248)	131,850
Claims paid for claims settled in year	(238,282)	145,430	(92,852)
Acquisitions, divestments and transfers	–	–	–
Effect of movements in exchange rates	2,134	(1,993)	141
Balance at 31 December	882,742	(410,459)	472,283
Claims reported and claims adjustment expenses	325,190	(186,992)	138,198
Claims incurred but not reported	557,552	(223,467)	334,085
Balance at 31 December	882,742	(410,459)	472,283
Unearned premiums:			
Balance at 1 January	123,030	(5,198)	117,832
Premiums written during the year	246,455	(48,725)	197,730
Premiums earned during the year	(254,789)	49,450	(205,339)
Effect of movements in exchange rates	1,095	(19)	1,076
Balance at 31 December	115,791	(4,492)	111,299
Deferred acquisition costs:			
Balance at 1 January	44,257	(340)	43,917
Acquisition costs written	86,455	(1,990)	84,465
Acquisition costs earned	(89,896)	2,032	(87,864)
Effect of movements in exchange rates	320	20	340
Balance at 31 December	41,136	(278)	40,858

10 Technical provisions continued

2022	Gross provisions $000	Reinsurance assets $000	Net $000
Claims incurred:			
Balance at 1 January	954,451	(592,777)	361,674
Over/under-provision in respect of prior claims and claim adjustment expenses	98,764	(58,902)	39,862
Expected cost of current year claims	149,024	(5,348)	143,676
Claims paid for claims settled in year	(280,664)	219,580	(61,084)
Acquisitions, divestments and transfers*	–	(41,807)	(41,807)
Effect of movements in exchange rates	(6,105)	5,503	(602)
Balance at 31 December	915,470	(473,751)	441,719
Claims reported and claims adjustment expenses	344,220	(233,996)	110,224
Claims incurred but not reported	571,250	(239,755)	331,495
Balance at 31 December	915,470	(473,751)	441,719
Unearned premiums:			
Balance at 1 January	121,493	(2,474)	119,019
Premiums written during the year	253,320	(10,314)	243,006
Premiums earned during the year	(251,858)	7,586	(244,272)
Effect of movements in exchange rates	75	4	79
Balance at 31 December	123,030	(5,198)	117,832
Deferred acquisition costs:			
Balance at 1 January	44,752	(630)	44,122
Acquisition costs written	89,814	(747)	89,067
Acquisition costs earned	(90,379)	1,064	(89,315)
Effect of movements in exchange rates	70	(27)	43
Balance at 31 December	44,257	(340)	43,917

*During the prior year the Syndicate completed a legacy portfolio transfer (LPT) securing coverage for potential adverse development on historical liabilities for selected lines of business. The Syndicate secured coverage for potential adverse development in respect of insurance liabilities of $41.8 million.

11 Debtors arising out of direct insurance operations

	2023 $000	2022 $000
Amounts due from intermediaries		
Due within one year	28,560	23,164
Due after one year	3,558	4,325
Total	32,118	27,489

12 Debtors arising out of reinsurance operations

	2023 $000	2022 $000
Amounts due from intermediaries		
Reinsurance recoverable (due within one year)	8,485	12,597
Ceding insurers under reinsurance business (due within one year)	1,628	1,342
Ceding insurers under reinsurance business (due after one year)	172	249
Total	10,285	14,188

13 Other debtors

	2023 $000	2022 $000
Amounts owed from fellow subsidiary of managing agent	255	360
Other	2,622	5,678
Total	2,877	6,038

14 Claims development tables

The claims development tables below have been calculated by converting estimated claims and cumulative payments in Canadian Dollars, Sterling and Euros to US Dollars at the closing rate of exchange at 31 December 2023. 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	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	2020 $000	2021 $000	2022 $000	**2023 $000**
Estimate of cumulative claims:										
At end of underwriting year one	143,806	158,821	206,391	187,893	165,858	130,182	150,910	85,352	70,629	**67,161**
One year later	276,207	355,218	491,981	346,486	308,182	345,273	264,589	177,176	140,981	
Two years later	287,119	344,622	460,337	351,263	321,292	306,922	286,147	173,990		
Three years later	301,384	380,308	510,742	383,641	346,948	340,926	289,195			
Four years later	310,030	410,086	564,614	385,149	370,657	364,598				
Five years later	311,978	433,442	554,000	398,936	388,731					
Six years later	311,115	427,769	551,305	405,762						
Seven years later	308,237	424,893	565,213							
Eight years later	305,412	438,561								
Nine years later	301,211									
Cumulative payments	(294,198)	(395,381)	(485,962)	(328,704)	(305,330)	(252,654)	(137,595)	(54,131)	(16,713)	**(2,766)**
Estimated balance to pay	7,013	43,180	79,251	77,058	83,401	111,944	151,600	119,859	124,268	**64,395**
Provision in respect of prior years										20,773
Total gross provision included in the balance sheet										882,742

Pure underwriting year Net of reinsurance	2015 $000	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	2020 $000	2021 $000	2022 $000	**2023 $000**
Estimate of cumulative claims:										
At end of underwriting year one	99,452	122,763	162,052	160,608	132,446	117,803	139,118	79,396	67,893	**65,487**
One year later	195,683	264,567	375,941	299,915	253,173	282,330	238,878	166,240	135,335	
Two years later	189,515	254,147	344,787	308,748	268,338	54,962	263,449	155,917		
Three years later	195,813	275,500	378,498	339,884	146,285	51,198	264,618			
Four years later	200,205	292,852	421,919	236,741	129,707	48,413				
Five years later	199,021	311,398	343,643	230,426	130,445					
Six years later	199,740	263,664	334,604	231,101						
Seven years later	186,567	256,429	335,437							
Eight years later	187,216	256,803								
Nine years later	187,228									
Cumulative payments	(187,732)	(257,252)	(317,820)	(212,191)	(126,392)	(52,119)	(117,850)	(45,911)	(15,773)	**(2,679)**
Estimated balance to pay	(504)	(449)	17,617	18,910	4,053	(3,706)	146,768	110,006	119,562	**62,808**
Provision in respect of prior years										(2,782)
Total net provision included in the balance sheet										472,283

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

15 Creditors arising out of direct insurance operations

	2023 $000	2022 $000
Amounts due to intermediaries		
Due within one year	22,776	9,937
Due after one year	–	–
Total	22,776	9,937

16 Creditors arising out of reinsurance operations

	2023 $000	2022 $000
Amounts due to intermediaries		
Due within one year	12,079	11,003
Due after one year	193,371	270,738
Total	205,450	281,741

17 Other creditors

	2023 $000	2022 $000
Amounts owed to fellow subsidiary of managing agent	1,446	1,092
Derivative financial liability	136	270
Other	2,109	2,051
Total	3,691	3,413

18 Accruals and deferred income

	2023 $000	2022 $000
Deferred reinsurance commission	278	340
Accrued expenses	55	–
Total	333	340

19 Related parties

Related companies

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

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

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

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

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

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

19 Related parties

Related companies continued

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

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

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

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

Hiscox Ltd indirectly owns a 32.27% 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	2023 $000	2022 $000
Hiscox Agencies Limited	(4,966)	(2,121)
Hiscox Inc.	12,147	19,158
Hiscox Underwriting Ltd	4,265	1,921
Other	435	1,286

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

Net expenses reflected in the profit and loss	2023 $000	2022 $000
Hiscox Inc.	(81,936)	(84,055)
Hiscox Underwriting Group Services Limited	(11,053)	(10,189)
Hiscox Underwriting Ltd	(3,183)	(3,529)
Other	(735)	(413)

Hiscox Syndicates Limited charges no managing agent fees or profit commission to Syndicate 3624 (2022: nil).

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

20 Syndicate structure

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

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Hiscox Syndicates Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

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