Beazley Insurance dac | Solvency and Financial Condition Report 2023

Risky Business

Welcome to our 2023 Solvency and Financial Condition Report

Beazley Insurance dac is a non-life insurance company that underwrites through its European branch network. The Company also acts as an internal reinsurer within the Beazley Group and provides capital to support the underwriting activities of Beazley Underwriting Limited in the Lloyd's market.

Contents

Summary

In accordance with the EU-wide regulatory regime for insurance and reinsurance companies (Solvency II), Beazley Insurance dac (BIdac or the Company) is required to publish annually its Solvency and Financial Condition Report (SFCR).

The report covers the business and performance of the Company, its system of governance, risk profile, valuation for solvency purposes and capital management and has been approved by the Company's Board of Directors.

Principal activities

BIdac is a non-life (re)insurance company that writes non-life insurance through its European branch network in the United Kingdom, France, Germany, Spain and Switzerland and operates across Europe on a freedom of services basis. The Company also acts as an internal reinsurer within the Beazley Group and provides capital to support the underwriting activities of Beazley Underwriting Limited (BUL) in the Lloyd's market.

The Company is a wholly owned subsidiary of Beazley Ireland Holdings plc, which is in turn wholly owned by Beazley plc (Beazley or the Group).

The Company acts as an intra-group reinsurer and provides capital to support the underwriting activities of its related company, BUL. BUL is a Lloyd's of London corporate member. It participates in the Lloyd's insurance market on a limited liability basis through syndicates 2623, 3622, 3623 and 5623.

Under the 2023 contract, BUL cedes effectively 65% of the final declared result (less a retention of $2.6m) of its participation in syndicates 2623 and 3623 to the Company. In the event that the declared result is a loss, the extent of the reinsurance is limited to the loss in excess of $2.6m not exceeding 65% of the Funds at Lloyd's (FAL). For the 2021 and 2022 years of account BUL ceded 75% of the final declared result (less a retention of $3.0m) of its participation in syndicates 2623 and 3623 to the Company. In the event that the declared result is a loss, the extent of the reinsurance is limited to the loss in excess of $3.0m not exceeding 75% of the FAL. The reinsurance contract was renewed for the 2024 underwriting year by the Company and BUL in December 2023. The main terms of the contract have remained the same as the 2023 contract.

The Company has a credit facility agreement with BUL. Under the 2023 agreement, the Company can provide up to 35% of BUL's total required FAL This facility was not utilised during the year.

The Company has entered into two new quota-share reinsurance contracts incepting 1 January 2024. The first will cede a portion of the syndicate property treaty business and the second will assume a portion of all business from the Group's newly established North American surplus lines carrier, Beazley Excess and Surplus Insurance Inc. (BESI).

Business review

The Company achieved strong premium growth in 2023, with growth achieved across all branches. Our direct business delivered a pre-tax profit of $53.0m (2022: $23.7m) aided by a relatively benign claims year. The reinsurance contracts with BUL, generated a profit before tax for the Company of $716.7m (2022: $28.7m). Total pre-tax profit was $769.7m (2022: $52.4m).

Throughout 2023, the Company continued to invest in and develop its business across Europe. Premiums from the Company's non-life insurance and reinsurance business carried out through its branches grew from $270.6m in 2022 to $346.5m in 2023. We expect growth to continue as we move into 2024 as a result of sustained organic growth on our current portfolio alongside new opportunities for the Company.

Solvency coverage

As detailed in Section D, the primary variance between the Generally Accepted Accounting Principles (GAAP) and Solvency II balance sheet is the replacement of the technical provisions. The Solvency II technical provisions have been calculated in line with Solvency II regulation that considers the contract cash flows, particularly in relation to the aggregate excess of loss reinsurance agreement with BUL. The cash flows represent the premium (provided the declared result of BUL is a profit) or claim (in the case of a loss) paid in respect of BUL's declared result and the fees for providing capital to support BUL's reinsured underwriting at Lloyd's.

BIdac holds a level of capital over and above its regulatory requirements. As at 31 December 2023, total eligible own funds were $2,583.1m, compared to the Solvency Capital Requirement (SCR) of $1,250.4m. At all times throughout the year the Company has met it's regulatory capital requirements. The amount of surplus capital held is considered on an ongoing basis in light of the current regulatory framework, opportunities for growth and a desire to maximise returns for the shareholder.

Environmental, Social and Governance

With regards to Environmental, Social and Governance (ESG) issues, reference should be made to the Group Annual Report and Accounts. The Task Force on Climate Related Financial Disclosures (TCFD) on page 22 of the 2023 annual report details recommendations and recommended disclosures at the consolidated Group level. The 2023 Beazley Annual Report and Accounts can be found at www.beazley.com.

Summary continued

Climate-related issues

The Company and the Group are focused on how we can play our part in addressing the climate crisis. While primary responsibility for climate related issues sits with the Group Board and committees listed on the table in section B.1, the Board (BIdac Board) has regular interactions and updates with the responsible persons to ensure that the Board is appropriately consulted, engaged and informed. The Board is responsible for ensuring that the Company is operating in accordance with legal and regulatory requirements and with relevant Group policies and procedures. The Company considers climate-related matters as part of the annual process to approve the risk framework and own risk and solvency assessment (ORSA).

Further details can be seen in section B1.

A. Business and performance

A.1 Business

Bldac is a company incorporated in Ireland.

The address of the registered office is:

2 Northwood Avenue
Santry
Dublin
D09 X5N9
Ireland

The supervisor of Bldac is:

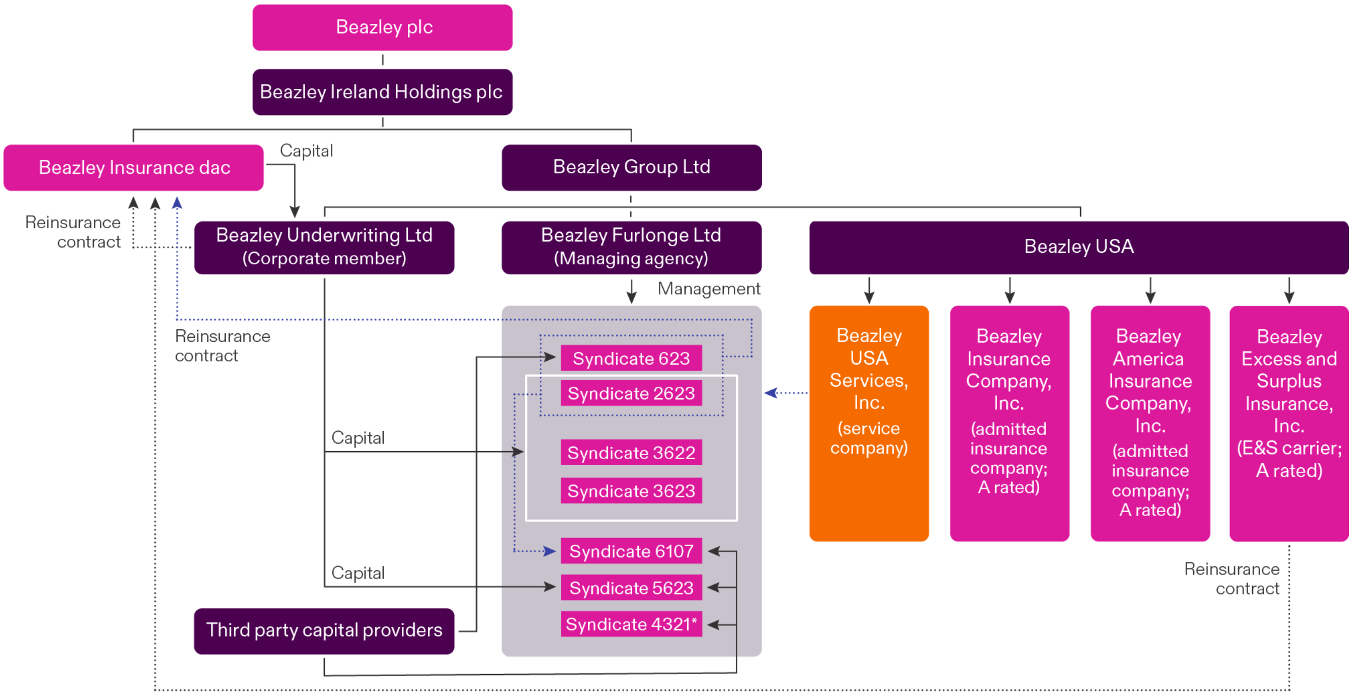
Central Bank of Ireland
PO Box 559
New Wapping Street
North Wall Quay
Dublin 1
Ireland

The independent auditor of the Company is:

Ernst & Young
Harcourt Centre
Dublin 2
Ireland

The Company is a wholly owned subsidiary of Beazley Ireland Holdings plc, which is in turn wholly owned by Beazley plc.

The Group operates across Europe, Asia, Canada and the US through a variety of legal entities and structures. The main entities within the legal entity structure are demonstrated in the diagram below.



* Syndicate 4321 is supported by both Beazley capital and third party capital.

A. Business and performance continued

A.1 Business continued

The Company aligns its underwriting divisions with that of the wider Beazley Group. Accordingly the Company has determined that its reporting segments are as follows:

Cyber Risks
This segment underwrites cyber and technology risks.

Digital
This segment underwrites a variety of marine, contingency and 'small and medium sized enterprises' (SME) liability risks through digital channels such as e-trading platforms and broker portals.

MAP Risks
This segment underwrites marine, political and contingency business.

Property Risks
This segment underwrites first party property risks and reinsurance business.

Specialty Risks
This segment underwrites a wide range of liability classes, including employment practices risks and directors and officers, as well as healthcare, lawyers and international financial institutions.

Intra-group Reinsurance
This segment includes the intra-group reinsurance contracts with BUL, syndicates 623 and 2623 and BESI.

The following tables provide a breakdown of gross premiums written by division in 2023 and 2022.

	2023
Cyber risks	13 %
Digital risks	4 %
MAP risks	2 %
Property risks	2 %
Specialty risks	12 %
Intra-group reinsurance	67 %

	2022
Cyber risks	24 %
Digital risks	2 %
MAP risks	2 %
Property risks	2 %
Specialty risks	29 %
Intra-group reinsurance	41 %

The table below provides an analysis of the geographical breakdown of gross premiums written by reference to the location of the risk insured by the Company. Premium generated through the Company's reinsurance contracts with BUL is classified as premium arising from UK located risk.

	2023 %	2022 %
Risks located in the UK	72 %	45 %
Risks located in continental Europe	27 %	52 %
Risks located elsewhere worldwide	1 %	2 %
Risks located in Ireland	–	1 %
Total	**100 %**	**100 %**

Additional information on underwriting performance by Solvency II line of business can be found in section A.2.

The main driver of the Company's performance and capital strength over the coming years is projected to be the Company's intra-group reinsurance contracts. Through these contracts, the Company will benefit from the diverse portfolio which the Group maintains across its underwriting divisions.

The Company plans to grow and expand its non-life insurance/reinsurance business across Europe through additional underwriting capability through our branch network.

The Company's underwriting strategy of exercising discipline across a diverse portfolio of specialist insurance products will remain a constant, and leaves the Company well positioned to take advantage of current market conditions as we enter 2024.

A. Business and performance continued

A.2 Underwriting performance

Data in the table below presents the GAAP underwriting performance by Solvency II line of business.

The below table shows the classification of the Company's divisions into their lines of business for Solvency II purposes.

Division	Solvency II Lines of Business
Cyber risks	General liability
Digital risks	General liability
MAP risks	Credit and suretyship, Fire and other damage to property, Health reinsurance, Marine aviation and transport, Miscellaneous Financial Loss
Property risks	Fire and other damage to property, non-proportional property reinsurance
Specialty risks	General liability, Non-proportional casualty reinsurance, Credit and suretyship
Intra-group reinsurance BUL contract	Non-proportional casualty reinsurance

The underwriting performance of each line of business is outlined in the below table.

2023	General liability $m	Non-proportional property reinsurance $m	Credit and suretyship $m	Marine, aviation and transport $m	Non-proportional casualty reinsurance $m	Non-proportional health reinsurance $m	Fire and other damage to property $m	Miscellaneous financial loss $m	Total $m
Net premiums written	244.9	14.9	7.9	3.1	702.5	1.0	4.6	3.2	**982.1**
Net earned premiums	203.6	14.8	4.2	2.5	702.4	1.0	4.4	1.5	**934.4**
Net claims incurred	(91.7)	(16.3)	(1.7)	(0.5)	43.9	(0.1)	(1.2)	(1.3)	**(68.9)**
Expenses incurred	(76.0)	(5.1)	(3.2)	(1.9)	(110.8)	(0.6)	(4.7)	(0.9)	**(203.2)**
Underwriting performance	**35.9**	**(6.6)**	**(0.7)**	**0.1**	**635.5**	**0.3**	**(1.5)**	**(0.7)**	**662.3**

2022	General liability $m	Non-proportional property reinsurance $m	Credit and suretyship $m	Marine, aviation and transport $m	Non-proportional casualty reinsurance $m	Non-proportional health reinsurance $m	Fire and other damage to property $m	Miscellaneous financial loss $m	Total $m
Net premiums written	164.4	7.5	5.2	2.0	183.4	0.8	3.0	0.7	**367.0**
Net earned premiums	149.3	7.0	4.6	1.7	184.0	0.8	2.7	0.6	**350.7**
Net claims incurred	(87.7)	(9.0)	(2.5)	(0.6)	(9.2)	(0.3)	(2.4)	(0.4)	**(112.1)**
Expenses incurred	(37.6)	(1.4)	(0.9)	(0.3)	(33.1)	(0.1)	(0.5)	(0.1)	**(74.0)**
Underwriting performance	**24.0**	**(3.4)**	**1.2**	**0.8**	**141.7**	**0.4**	**(0.2)**	**0.1**	**164.6**

Geographical breakdown

From a Solvency II perspective, the GAAP gross premiums underwritten by the branches of $346.5m (2022: $270.6m) are all classified as originating from the UK and continental Europe. Premium recognised in relation to the reinsurance contracts with BUL was $701.4m (2022: $182.4m).

A. Business and performance continued

A.2 Underwriting performance continued

The Company's activities are displayed below in segments representing insurance/reinsurance (represented below as Cyber risks, Digital, MAP risks, Property risks, Specialty risks) and intra-group reinsurance activities which reflects the reporting and governance within the Company, with the Insurance Management Committee monitoring the performance of the insurance/reinsurance business and the Reinsurance Underwriting Group monitoring the performance of the intra-group reinsurance business.

31 December 2023	Cyber Risks $m	Digital $m	MAP Risks $m	Property Risks $m	Specialty Risks $m	Intra-group reinsurance $m	Total $m
Segment results							
Gross premiums written	137.4	38.8	20.7	22.4	127.2	701.4	1,047.9
Net earned premiums	102.7	22.4	11.4	16.9	79.8	701.4	934.6
Net investment return	11.2	2.8	1.2	1.8	12.0	109.0	138.0
Revenue	**113.9**	**25.2**	**12.6**	**18.7**	**91.8**	**810.4**	**1,072.6**
Net insurance claims	(61.4)	(9.0)	(3.8)	(17.1)	(26.4)	44.3	(73.4)
Net operating expenses	(27.0)	(10.1)	(7.3)	(8.8)	(35.6)	(108.8)	(197.6)
Expenses	**(88.4)**	**(19.1)**	**(11.1)**	**(25.9)**	**(62.0)**	**(64.5)**	**(271.0)**
Segment result	**25.5**	**6.1**	**1.5**	**(7.2)**	**29.8**	**745.9**	**801.6**
Foreign exchange loss	–	–	–	–	–	–	(0.3)
Finance costs	–	–	–	–	–	–	(31.6)
Profit on ordinary activities before tax							**769.7**

31 December 2022	Cyber Risks $m	Digital $m	MAP Risks $m	Property Risks $m	Specialty Risks $m	Intra-group reinsurance $m	Total $m
Segment results							
Gross premiums written	106.8	9.5	11.0	11.2	132.1	182.4	453.0
Net earned premiums	72.1	6.1	8.2	8.5	73.4	182.4	350.7
Net investment losses	(2.8)	(0.2)	(0.2)	(0.3)	(4.0)	(28.8)	(36.3)
Revenue	**69.3**	**5.9**	**8.0**	**8.2**	**69.4**	**153.6**	**314.4**
Net insurance claims	(45.4)	(3.2)	(4.8)	(10.1)	(41.9)	(8.5)	(113.9)
Net operating expenses	(13.5)	(1.8)	(2.2)	(2.2)	(18.6)	(32.7)	(71.0)
Expenses	**(58.9)**	**(5.0)**	**(7.0)**	**(12.3)**	**(60.5)**	**(41.2)**	**(184.9)**
Segment result	**10.4**	**0.9**	**1.0**	**(4.1)**	**8.9**	**112.4**	**129.5**
Foreign exchange loss	–	–	–	–	–	–	(45.5)
Finance costs	–	–	–	–	–	–	(31.6)
Profit on ordinary activities before tax							**52.4**

A. Business and performance continued

A.3 Investment performance

Summary of investment return including income from intercompany financing arrangements

	Investment return 2023 $m	Investment return 2022 $m
Income derived from financial assets[1]	110.3	(66.8)
Income from intercompany financing arrangements[2]	28.9	31.7
Investment income	139.2	(35.1)
Investment expenses and charges	(1.2)	(1.2)
Total	**138.0**	**(36.3)**

1 Income derived from financial assets reflects the investment return generated from BIdac's financial assets, including the assets it deposits with Lloyd's, as trustee, to support the underwriting activities of BUL.
2 Income from intercompany financing arrangements includes fees received from BUL in connection with BIdac's provision of assets supporting BUL's underwriting activity.

Income and expenses by asset class ($m) excluding income from intercompany financing arrangements

		Capital growth		
2023	Fixed interest	Equity	Hedge funds	Total $m
Income	72.1	35.0	3.2	110.3
Expenses	(0.8)	(0.1)	(0.3)	(1.2)
Net	**71.3**	**34.9**	**2.9**	**109.1**

		Capital growth		
2022	Fixed interest	Equity	Hedge funds	Total $m
Income	(40.6)	(30.1)	3.9	(66.8)
Expenses	(0.8)	(0.1)	(0.3)	(1.2)
Net	**(41.4)**	**(30.2)**	**3.6**	**(68.0)**

Breakdown of total return on investment assets (%) excluding income from intercompany financing arrangements and investment expenses and charges

		Capital growth				
2023	Fixed interest	Equity	Hedge funds	Total	%	Total $m
Total return	**4.9**	**26.6**	**5.8**	**20.1**	**6.4**	**110.3**

		Capital growth				
2022	Fixed interest	Equity	Hedge funds	Total	%	Total $m
Total return	**(2.7)**	**(22.1)**	**7.6**	**(13.9)**	**(3.9)**	**(66.8)**

Summary of investment return excluding income received from intercompany financing activities

	2023 %	2023 $m	2022 %	2022 $m
Income derived from financial assets	–	110.3	–	(66.8)
Investment expenses and charges	–	(1.2)	–	(1.2)
Total	**6.3**	**109.1**	**(4.0)**	**(68.0)**

Investment assets returned 6.3%, inclusive of investment expenses and charges, in 2023 (2022: (4.0%)). The improvement in return reflects the yields available on fixed income investments, which are much higher than in recent years, as well as strong returns from equity and credit exposures.

There are currently no investments in structured securities.

A. Business and performance continued

A.4 Performance of other activities

BIdac has no material income or expenses other than the income and expenses included within the segmental in A.2 and A.3.

A.5 Any other information

Leasing Arrangements

There are no material leasing arrangements in place (2022: nil).

B. System of governance

B.1 General information on the system of governance

During the year ended 31 December 2023, the Board was divided between two Executive Directors, two Group Non-Executive Directors and four independent Non-Executive Directors. The chair is an independent Non-Executive Director. Two Group Non-Executive Directors resigned on the 11th and 12th December 2023, respectively.

The Board retains ultimate authority for all strategic issues and management decisions of BIdac including effective, prudent and ethical oversight as well as setting the Company strategy and ensuring that risk and compliance are properly managed. The Board may delegate its powers for review and research purposes within specific terms of reference to committees and working groups. The committees and working groups act in an advisory capacity to the Board.

The Board has formed the following sub committees:
- Audit Committee; and
- Risk and Compliance Committee.

These committees have the power to carry out activities on behalf of the Board to the extent of the authority delegated to them by the Board, as set out in their terms of reference.

The Board has also established a number of executive committees or groups which operated throughout 2023:
- Insurance Management Committee;
- Reinsurance Underwriting Group;
- Swiss Branch Management Committee;
- Branch Manager Committee; and
- Regulatory Review Committee.

The General Manager has responsibility for operations, compliance and performance which includes the smooth running of the business and effective function of the day-to-day operations of BIdac and for any changes thereto.

BIdac has a Head of Finance, Head of Compliance, Head of Actuarial Function (HoAF) and Chief Risk Officer (CRO) as approved by the Central Bank of Ireland (CBI). The key functions of Risk Management, Finance, Actuarial, Internal Audit and Compliance are all supported by the Group functions under the terms of an intra-group service agreement between BIdac and Beazley Management Limited (BML).

A review of the systems of governance is carried out annually and the 2023 review concluded that no substantial enhancements were required. Actions generated through the review are monitored by the Board in the normal course of business.

Remuneration policy and practices

The Company's Board has adopted a remuneration policy which is overseen and reviewed by the Beazley plc Remuneration Committee. The main aim of Beazley's remuneration policy is to ensure that management and staff are remunerated fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel.

Beazley believes that:
- performance-related remuneration is an essential motivation to management and staff and is structured to ensure that executives' interests are aligned with those of shareholders;
- individual remuneration reflects Group objectives but is dependent on the profitability of the Group and is appropriately balanced against risk considerations; and
- the structure of remuneration packages supports meritocracy, which is an important part of the Group culture.

Independent Non-Executive Directors' fees comprise payment of an annual basic fee and additional fees to reflect specific responsibilities, where applicable. No independent Non-Executive Director participates in the Group's incentive arrangements or pension plan.

B. System of governance continued

B.1 General information on the system of governance continued

Remuneration policy and practices continued

The following tables set out the additional incentive arrangements for staff within the organisation other than Executive Directors:

Element	Objective	Summary
Profit related pay plan (PRP)	To align underwriters' reward with the profitability of their account.	Profit on the relevant underwriting account as measured at three years and later.
Support bonus plan	To align staff bonuses with individual performance and achievement of objectives.	Participation is limited to staff members not on the executive or in receipt of PRP bonus. The support bonus pool may be enhanced by a contribution from the enterprise bonus pool.
Retention shares	To retain key staff.	Used in certain circumstances. Full vesting dependent on continued employment over six years.
Long-term Incentive Plan (LTIP)	To award shares to senior management and selected underwriters for achievement of stretching performance conditions.	Award of shares with performance conditions. LTIP awards vest over a three-year performance period. Awards will normally be subject to an additional holding periods following the date on which the award vests, up to the fifth year of the award. Vesting is based on growth in net asset value per share (NAVps) and the delivery of our ESG priorities.

The Beazley plc Remuneration Committee regularly reviews remuneration governance in the context of Solvency II remuneration guidance, other corporate governance developments and institutional shareholders' guidance. The Group CRO reports annually to the Beazley plc Remuneration Committee on risk and remuneration as part of the regular agenda. The Company believes the approach to remuneration being adopted is consistent with, and takes account of, the risk profile of the Company.

All employees of BIdac may participate in a defined contribution pension plan, which is non-contributory, and are offered benefits such as private medical insurance. Beazley operates a SAYE (Save As You Earn) scheme for the benefit of Irish-based employees of the Group.

The performance criteria on which variable components of remuneration are based are as follows:

B. System of governance continued

B.1 General information on the system of governance continued

Remuneration policy and practices continued

Incentive plan	Performance measures	Why performances measures were chosen and target is set
Annual bonus plan	Financial performance (including profit and Return on Equity (ROE), corporate/strategic performance (including risk adjustment) and individual performance.	• The Beazley plc Remuneration Committee believes the approach to the calculation of bonuses is aligned to shareholders' interests and ensures that bonuses are affordable, while ROE targets increase the performance. • The Beazley plc Remuneration Committee reviews the bonus pool framework each year to ensure it remains appropriate, taking into account the prevailing environment, interest rates and expected returns, headcount and any other relevant factors. • A key principle of the process is that the Beazley plc Remuneration Committee exercises its judgement in determining individual awards taking into account corporate/strategic objectives, individual's contribution and performance.
Profit related pay (PRP)	To align the interests of the Group and the individual through aligning an underwriter's reward to the long term profitability of their portfolio.	• Underwriters who have significant influence over a portfolio may be offered awards under this plan. There is no automatic eligibility. PRP is awarded irrespective of the results of the Group. Awards are capped. • This bonus is awarded as cash and is based upon a fixed proportion of profit achieved on the relevant underwriting account as measured at three years and later. Any movements in prior years are reflected in future year payments as the account develops after three years. For long-tail accounts the class is still relatively immature at the three-year stage and therefore payments will be modest. Underwriters may receive further payouts in years four, five and six (and even later) as the account matures. Therefore each year they could be receiving payouts in relation to multiple underwriting years. • If the account deteriorates as it develops any payouts are 'clawed back' through reductions in future profit related bonuses. From 2012 onwards any new PRP plans may be at risk of forfeiture or reduction if, in the opinion of the Beazley plc Remuneration Committee, there has been a a serious regulatory breach by the underwriter concerned, including in relation to the Group's policy on conduct risk. The Beazley plc Remuneration Committee also have oversight for all material risk takers who participate in the PRP plan. • The fixed proportion is calculated based upon targets which are set through the business planning process and reviewed by a committee formed of Group Executive Committee members and functional specialists including the Group actuary. Underwriting risk is taken into account when setting profit targets.
Deferred share plan	Award of nil cost share awards. Generally awarded as a deferred element of the annual bonus.	• This is a discretionary award. • Vesting is dependent on continued employment for three years. • An element of all bonuses, apart from underwriters' PRP, may be awarded in deferred shares. • Awards from this plan may also be awarded with performance conditions in special circumstances, for example, recruitment.
Retention shares	The retention plan may be used for recruitment or retention purposes.	• This is a discretionary award. • Any awards vest at 25% per annum over years three to six.

B. System of governance continued

B.1 General information on the system of governance continued

Remuneration policy and practices continued

Incentive plan	Performance measures	Why performances measures were chosen and target is set
Long-term Incentive Plan (LTIP)	Award of shares to senior management and selected underwriters subject to the achievement of stretching performance conditions. For awards granted prior to 2023 vesting is based on growth in NAVps, one of Beazley's key performance indicators. NAVps performance is assessed equally over a three year and five year period. In accordance with the UK Corporate Governance Code the first tranche of LTIP awards is subject to a further two year holding period, taking the total time frame for the entire award to five years. From 2023 onwards performance is measured after three years. Awards are subject to a further two year holding period taking the total time frame to five years. Vesting is based on growth in NAVps and the delivery of our ESG priorities.	• Creates alignment to one of Beazley's key performance indicators. • The Beazley plc Remuneration Committee reviews the NAVps targets periodically to ensure they remain appropriate with reference to evolving market practice. • The Beazley plc Remuneration Committee believes the LTIP metrics are the most appropriate metrics for LTIP at this time, and acknowledge the ESG strategy will evolve over time and intend to employ alternative metrics in the future where appropriate and relevant.
Investment in underwriting	The plan mirrors investment in an underwriting syndicate.	• The Beazley staff underwriting plan provides for participants to contribute personal capital to Beazley syndicates. Selected staff are invited to participate through bonus deferral with an element of cash incentives 'at risk' as capital commitments.
Malus	To include provisions that would enable the Company to recover sums paid or withhold payment of any sum in circumstances when it would be appropriate to do so.	• Recovery provisions (malus and clawback) have applied to incentives for a number of years.

B. System of governance continued

B.1 General information on the system of governance continued

Climate Change

The table below details how climate-related matters are considered within the Company.

Board/Committee	Description of how climate-related matters are considered
Beazley plc Board and Beazley Insurance dac Board	The Group and Company Boards consider climate-related matters as part of the annual process to approve: • the Risk Appetite Statements; • the Group's corporate business plan, including capital adequacy and the ORSA; • updates to the Group's Responsible Business Strategy; • the Responsible Investment Policy; • the investment strategy; and • Annual Report and Accounts, including TCFD report. Throughout the year the Group and the Company boards monitor progress against the goals and targets set to address climate-related issues, through the update papers provided primarily from the following functions: responsible business, risk and underwriting.
Beazley plc Risk Committee	The Group Board has delegated oversight of the risk management framework to the Beazley plc Risk Committee. The committee's responsibilities include overseeing the effectiveness of the risk management framework at Beazley, of which climate-related risk is one element.
Beazley plc Audit Committee	The Beazley plc Audit Committee has responsibility for TCFD reporting. The Beazley plc Audit Committee has received three TCFD update reports throughout the year as part of Beazley's approach to a year-on-year improvement in enhancing our response to the recommendations. The Beazley plc Audit Committee is part of the process for the signing off and approving of the annual TCFD disclosures. The Company's Audit Committee is responsible for company-level requirements in relation to climate related reporting such as EU's upcoming Corporate Sustainability Reporting Directive (CSRD).
Beazley plc Nomination Committee	This Committee considers the current and anticipated future leadership needs of the organisation to operate effectively. The Beazley plc Nomination Committee also recommends, for approval to the Group Board, the annual board knowledge and training plan. Climate-related matters can form part of this plan.
Beazley plc Remuneration Committee	This Committee is responsible for ensuring climate-related risk is considered within executive remuneration. Evidence that this occurs is documented within the Executive Director's remuneration scorecard, where climate-related risk matters are considered as part of Beazley's wider approach to ESG. Remuneration is reviewed on an annual basis.

B. System of governance continued

B.2 Fit and proper requirements

Our approach is to ensure that all key functions are identified with prescribed responsibilities allocated and that persons who effectively run the undertaking or have other key functions, and are important to the sound and prudential management of the undertaking, fulfil the following requirements:

- their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit);
- they are of good repute and integrity (proper); and
- they currently meet and annually subscribe to continue to meet all relevant supervisory standards.

Beazley's policy is that CBI pre-approved controlled functions (PCFs) and controlled functions (CFs) must meet the fitness and probity standards as required by the CBI, and in that regard we will ensure compliance with the provisions of Solvency II, to which the CBI regime is aligned.

BIdac seeks to ensure that members of the BIdac governance bodies, all PCFs and CFs (collectively –'approved persons') possess sufficient professional qualifications, knowledge and experience in the relevant areas of the business to give adequate assurance that they are collectively able to provide a sound and prudent management of the Company. The assessment of whether a person is 'fit' shall take account of the respective duties allocated to that person and, where relevant, the insurance, financial, accounting, actuarial and management skills of the person. In the case of members of the Board, the assessment shall take account of the respective duties allocated to individual members to ensure appropriate diversity of qualification, knowledge and relevant experience to ensure that the business is managed and overseen in a professional manner.

Additionally our policy is to assess the fitness of approved persons against the key competencies required by the CBI, namely:

- conduct to be competent and capable – a person shall have the qualifications, experience, competence and capacity to the relevant function;
- conduct to be honest, ethical and to act with integrity – a person must be able to demonstrate that his or her ability to perform the relevant function is not adversely affected to a material degree; and
- financial soundness – a person shall manage his or her affairs in a sound and prudent manner.

Our policy is to apply this approach to both external and internal appointments. We then tailor individual development plans, including mentoring as appropriate, for the appointee to ensure that they are able to fulfil their obligations in their approved person roles.

B. System of governance continued

B.3 Risk management system including the own risk and solvency assessment

Risk management philosophy

Beazley's risk management philosophy is to balance the risks the business takes on with the associated cost of controlling them, while staying within the risk appetite set by the Company Board. The Company continuously monitors its risk profile to ensure it stays within this appetite and takes advantage of opportunities as they arise. As a specialist insurer, Beazley underwrites several classes of business that are vulnerable to the effects of climate change. To manage these risks, the Company has four options: accept the risk, avoid it, mitigate it, or transfer it.

Risk management oversight and framework

The Group Board delegates direct oversight of the risk management function and framework to its Risk Committee, and the primary regulated subsidiary boards and their (Audit and) risk committees. The Group Board delegates executive oversight of the risk management function and framework to the Group Executive Committee, which fulfils this responsibility primarily through its Risk and Regulatory Committee. At a Company level, executive oversight sits with the Insurance Management Committee. The Board sub-committee responsible for the risk management framework is the Company Risk and Compliance Committee.

Beazley takes an enterprise-wide approach to managing risk. The risk management framework establishes the approach to identifying, measuring, mitigating, monitoring, and reporting on principal risks. The risk management framework supports the Group strategy and objectives.

Beazley leverages the 'three lines of defence' model, in which the risk management function is part of the second line of defence. Ongoing communication and collaboration across the three lines of defence ensures that the Group identifies and manages risks effectively.

A suite of reports from the risk management function support senior management and the Board in discharging their oversight and decision-making responsibilities throughout the year. The risk management function's reports include updates on risk appetite, risk profiles, stress and scenario testing and analysis, reverse stress testing, emerging and heightened risks and the ORSA report.

The Board approves the Company risk appetite statements at least annually and receives updates on monitoring against risk appetites throughout the year. This includes an assessment of principal risks.

The business operates a control environment which supports mitigating risks to stay within risk appetite. The risk management function reviews and challenges the control environment through various risk management activities. In addition, the risk management function works with the capital model and exposure management teams, particularly in relation to validation of the internal model, preparing parts of the ORSA, monitoring risk appetite and the business planning process.

The risk management plan considers, among other inputs, the inherent and residual risk scores for the risks in the registers. The risk management function also includes results from internal audits into its risk assessment process. The internal audit function considers the risk management framework in its audit universe to derive a risk-based audit plan.

The Company's approach to identifying, managing and mitigating emerging risks includes inputs from the business, analysis of lessons learned post-risk incidents and industry thought leadership. The approach considers the potential materiality and likelihood of impacts, which helps prioritise emerging risks which the Company monitors or undertakes focused work on. Key emerging risks in 2023 included geopolitical, artificial intelligence, large cyber attack, legal and regulatory risk, human capital, and climate change. The Board carries out a robust assessment of the Company's emerging risks at least annually.

B. System of governance continued

B.3 Risk management system including the own risk and solvency assessment continued

We carefully assess the principal risks facing us. Our principal risks are under continuous review with ongoing risk assessments. Consideration is given to new regulations including Consumer Duty, the Individual Accountability Framework, and the Digital Operational Resilience Act (DORA). Insurance, Strategic and Operational risks outlook increases from macroeconomic changes, enhancements in technology, people and processes which deliver great benefit, but also introduce risk during and post implementation. The table below summarises the principal risks the Group faces, and the control environment, governance and oversight that mitigate these risks.

The table below summarises the Group and the Company's principal risks, the control environment, governance and oversight that mitigate these risks.

Risk appetite

Within Trending outside Outside

Risk outlook

Increasing Stable Decreasing

Principal risks and summary descriptions	Mitigation and monitoring
Insurance The risk arising from the inherent uncertainties about the occurrence, amount and timing of insurance premium, and claims liabilities. This includes risk from underwriting such as market cycle, catastrophe, reinsurance and reserves. • Market cycle: potential systematic mispricing of medium- or long-tailed business that does not support revenue to invest and cover future claims; • Catastrophe: one or more large events caused by nature (e.g. hurricane, windstorm, earthquake and/ or wildfire) or mankind (e.g. coordinated cyber-attack, global pandemic, losses linked to an economic crisis, an act of terrorism or an act of war and/or a political event) impacting a number of policies, and therefore giving rise to multiple losses; • Reinsurance arrangements: reinsurance may not be available or purchases not made to support the business (i.e., mismatch); and • Reserving: reserves may not be sufficiently established to reflect the ultimate paid losses.	The Company used a range of techniques to mitigate insurance risks including pricing tools, analysis of macro trends and claim frequency, alignment with pricing and ensured exposure was not overly concentrated in any one area, especially those with higher risk. The strategic approach to exposure management and a comprehensive internal and external reinsurance programme helped to reduce volatility of profits in addition to managing net exposure with the transfer of risk. The prudent and comprehensive approach to reserving helped ensure that claims covered by the policy wording were paid, delivering good customer outcomes. High calibre claims and underwriting professionals deliver expert service and claims handling to insureds. The Group Underwriting Committee, the Company's Insurance Management Committee and Reinsurance Underwriting Group oversee these risks and report to the Company Board regularly. The Company carries out periodic analysis to identify significant areas of concentration risk across our business and monitors solvency regularly to ensure the Company is adequately capitalised.
Market The value of investments may be adversely impacted by financial market movements in the values of investments, interest rates, exchange rates, or external market forces. Expected asset returns may not align to risk and capital requirements.	The Company operates a conservative investment strategy with a view to limiting investment losses that would impact the Company’s financial results. The Company mitigates this risk by carrying out asset liability matching as per the investment constraints specified in the investment strategy. The Group Investment Committee overseas the investment strategy and its implementation, with regular reporting by the Company Chief financial officer (CFO) to the Company Board. Market risk outlook continues to face headwinds across investment yields and foreign currency due to the global and political economic environment.

B. System of governance continued

B.3 Risk management system including the own risk and solvency assessment continued

Principal risks and summary descriptions	Mitigation and monitoring
Credit This risk of failure of another party to perform its financial or contractual obligations in a timely manner. Exposure to credit risk from its reinsurers, brokers and coverholders, of which the premium due under the reinsurance contract with BUL was the largest exposure for the Company.	The Company trades with strategic reinsurance partners over the long term that support the Company through the cycle despite catastrophic claim events. The Company's main credit risk arises from premiums receivable from BUL through intra-group reinsurance arrangements. This position is monitored closely. Credit risk arising from brokers (non payment of premiums or claims) is monitored through robust due diligence processes, credit monitoring and ongoing monitoring of aged debts. The Company has credit risk arising from relationships with external reinsurers, both directly within the European business and indirectly through the Company's reinsurance contracts with BUL. Credit risk relating to external reinsurance counterparties is monitored by the Group Reinsurance Security Committee, and the Group Reinsurance team report regularly to thee Company's Insurance Management Committee, with at least annual reporting to the Company Board.
Group The risk of an occurrence in one area of the Group, which adversely affects another area in the Group, resulting in financial loss and/or reputational damage. This also includes a deterioration in culture which leads to inappropriate behaviour, actions and/or decisions including dilution of culture or negative impact on the Group brand.	Group risk culture centres on principles of transparency, accountability, and awareness. This helps maintain a strong risk culture that supports an embedded risk management framework such that it makes a difference and was overseen by the Board. An effective risk culture reflects a maturing risk management framework, encourages sound risk taking, creates an awareness of risks and emerging risks. The Board oversees this risk. Group risk outlook continues to be stable as the executive management manages culture through continuous improvement and monitoring.
Liquidity Investments and/or other assets are not available or adequate in order to settle financial obligations when they fall due.	By managing liquidity the Company maximises flexibility in the management of financial assets, including investment strategy, without incurring unacceptable liquidity risks over any time horizon. In doing so, this helps to ensure that clients and creditors are financially protected. The Company periodically assesses the liquidity position of the Company, which is reported at least quarterly to the Board by the CFO. This includes a benchmarking view from a third-party assessment. Liquidity risk outlook continues to be stable as the Group and Company manage above sufficient levels of liquidity and capital.

B. System of governance continued

B.3 Risk management system including the own risk and solvency assessment continued

Principal risks and summary descriptions	Mitigation and monitoring
Regulatory and legal Non-compliance with regulatory and legal requirements, failing to operate in line with the relevant regulatory framework in the territories where the Company operates leading to being unable to underwrite, manage claims, fines, etc.	The control environment supports the nature, exposure, scale and complexity of the business overseen by the Risk and Compliance Committee. The Company maintains a trusting and transparent relationship with regulators, ensuring coordinated communication and robust processes, policies and procedures being followed in the business. In addition, key staff, particularly those who held defined roles with regulatory requirements, were experienced and maintained regular dialogue with regulators. The Company horizon scans for regulatory and legal matters and considers their potential impacts on the business. We consider the needs of our clients in everything our business does. We deliver good customer outcomes to our clients throughout the product lifecycle. The Group's Conduct Review Group oversees this risk, with regular reporting to the Company Insurance Management Committee and the Company Risk and Compliance Committee. The Company aims to do the right thing to minimise reputational risk via stakeholder management and oversight through governance. Regulatory and legal risk outlook continues to increase as the Company and the Group manage evolving regulatory requirements and legislative changes on a local and global basis.

B. System of governance continued

B.3 Risk management system including the own risk and solvency assessment continued

Principal risks and summary descriptions	Mitigation and monitoring
Operational Failures of people, processes and systems or the impact of an external event on operations (e.g., a cyber-attack having a detrimental impact on operations), including transformation and change related risks.	The Company attracts and nurtures talented colleagues who champion diversity of thought, creating a culture of empowerment, collaboration and innovation to build an environment of employee wellbeing. The Company employs high calibre, motivated, loyal, and productive people with sufficient competence to perform the required duties. The Company invests in technology and re-engineering processes to support the operation of activities which is overseen by the Group's Operations Committee. The Company has policies and procedures across the organisation which ensure effective and efficient operations. This drives productivity and quality across people, processes and systems to continue to enable scalable growth. The business continuity, disaster recovery and incident response plans, help ensure the processes and systems enable our people to deliver the right outcomes for clients and overall productivity. During 2023, there were effective controls in the day-to-day operations around information security, data management, operational resilience including cyber resilience, etc. to mitigate the damage that loss of access to data or the amendment of data can have on the ability to operate. Given the Company's operating model, outsourcing is a key component of operational risk and in particular the Company closely manages the outsourced services received under the Company's arrangement with BML. Operational risk outlook continues to be stable as the Company embeds newly established processes and controls associated with strategic change and the planned growth of the business.

B. System of governance continued

B.3 Risk management system including the own risk and solvency assessment continued

Principal risks and summary descriptions	Mitigation and monitoring
Strategic Events or decisions that potentially stop the Company from achieving its goals or danger of strategic choices being incorrect, or not responding effectively to changing environments in a timely manner leading to inadequate profitability, insufficient capital, financial loss or reputational damage.	The Company ensures it recognises, understands, discusses, and develops a plan of action to address any significant strategic priorities in a timely fashion whilst ensuring continuity of operational effectiveness and brand reputation. The Company creates an environment that attracts, retains and develops high performing talent with diversity of thought to explore, create and build, through investing in understanding the complexity of the risks clients face and deploying expertise to create value. The Company Board oversees these risks. The Company maintains coverage above regulatory capital to a target level, ensuring sufficient capital to facilitate meeting the business plan and strategic objectives in the short, medium and long term. The Company aims to strategically create a sustainable business for our people, partners and planet through its responsible business goals. The Company embeds ESG principles and ambitions and it focuses on reducing its carbon footprint (refer to more detail on climate related risks and mitigations in the Group's TCFD report), contributing appropriately to its social environment, and enhancements to governance. Note that while the Company considers market practice, it does not necessarily move with every prevailing market trend, considering these for potential opportunities and risks. Strategic risk outlook continues to be stable as the Group and Company embed its achievements from 2023.

System of governance continued

B.3 Risk management system including the own risk and solvency assessment continued

Own risk and solvency assessment

The Solvency II Directive indicates that the ORSA is ‘the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks a company faces or may face and to determine the own funds necessary to ensure that the undertaking’s overall solvency needs are met at all times.

In other words, the ORSA is the consolidation of a collection of processes resulting in the production of a report to provide risk committees and boards with sufficient information to enable an assessment of the short term and long term risks faced by the entity and the capital required to support these risks.

Beazley’s interpretation is that there are three parts to the ORSA deliverables:
- ORSA governance;
- ORSA processes: coordination of a number of underlying processes; and
- ORSA reports: summary of the findings from these processes.

The overarching governance structure is illustrated in the table below. The Board has the ultimate responsibility for the Company ORSA.

The risk management function is responsible for the coordination of the ORSA process and the production of the ORSA report with input from relevant first line Risk Owners and their respective teams.

The ORSA report is produced and approved by the Board on at least an annual basis.

Ad hoc ORSA

An ad hoc ORSA will be produced when there has been a material change to the risk profile or the environment within which Beazley is operating. Example triggers for such an ad hoc ORSA are:
- Major internal model changes as per the model change policy;
- New business plan is created (e.g. following a major CAT event);
- Prior to the completion of a board sponsored acquisition; and
- Or any other changes deemed to be significant, as judged by the relevant boards.

These ORSA reports will focus on the matter in hand and will not necessarily cover all aspects that are included in the annual ORSA report. The content should be relevant to the trigger of the ad hoc ORSA report and the purpose to inform management and the Board of relevant risk assessments, changes to the risk profile, and implications for strategy, business plans, and capital.

Relationship between the internal model and the ORSA

The internal model is an important input into the ORSA. The ORSA uses the same internal model and basis as that used to estimate the SCR and so there is no difference in the recognition and valuation bases. Any limitations of the internal model relevant to the ORSA will be considered in the relevant ORSA report as part of the overall solvency needs assessment.

B. System of governance continued

B.3 Risk management system including the own risk and solvency assessment continued

ORSA process

The underlying processes that make up Beazley's ORSA process are summarised in the table below and these are applicable for all in-scope entities. The table also indicates the process owner, primary oversight committee and identifies the SII process document and name of the report.

Process	Process owner/oversight committee	Document
BIdac strategy Annual Board strategy meeting Regular Group CEO and CFO updates to the Board	Group Chief Executive Officer (CEO) BIdac Board	Process document: S2-0595 Beazley Strategy Process Report: Beazley's strategy document
Risk appetite Qualitative risk appetite Annual risk appetite levels for BIdac	BIdac CRO BIdac Risk and Compliance Committee BIdac Board	Process document: S2-0102 Risk Management Framework Report: Annual risk appetite documents, Risk summary documents
Risk assessment – current Risk register and risk summaries Risk management reporting: • Control performance and comments from assurance function; • Comparison of residual risk score with risk appetite; • Risk incidents; • Key risk indicators; • Heightened risk report; and • Risk profiles. Exposure management reporting	BIdac CRO BIdac Risk and Compliance Committee	Process document: S2-0102 Risk Management Framework Report: Risk management reports
Risk assessment – emerging risk Bi-annual risk assessment with risk owners Annual review of strategic and emerging risks Risk profiles	BIdac CRO BIdac Risk and Compliance Committee	Process document: S2-0102 Risk Management Framework – emerging risk Report: Emerging and strategic risk reporting
Stress and scenario testing Stress testing Scenario testing Reverse stress testing	BIdac CRO BIdac Risk and Compliance Committee	Process document: S2-0543 Stress and Scenario Risk Framework Report: Stress and scenario reporting
One year business plan Challenge process overseen by BIdac Insurance Management Committee Formal report produced by BIdac Insurance Management Committee Review and challenge by BIdac Insurance Management Committee	Chief Underwriting Officer BIdac Insurance Management Committee BIdac Board	Process document: S2-0596 Business Planning process Report: The annual business plans

B. System of governance continued

B.3 Risk management system including the own risk and solvency assessment continued

ORSA Process continued

Process	Process owner/oversight committee	Document
Regulatory capital assessment Parameterised from one year business plan Analysis of change and capital requirement agreed with regulators	BIdac Risk and Compliance Committee BIdac Board	Process document: S2-0050 Overall Model - Executive Report: Internal model report
Capital strategy Capital strategy Establish dividends in line with dividend strategy	BIdac Head of Finance BIdac Board	Process document: S2-0260 Liquidity Risk Policy Report: Capital management reports
Five-year plans and projections Regular updates of plans and projections Consideration of a number of scenarios based on macro-economic trends Assessment of capital requirements under each scenario Identification of capital and dividend stress points	Chief Underwriting Officer Group Executive Committee BIdac Head of Finance BIdac Board	Process document: Cycle Management Terms of reference Report: Long Term Plan, 5 year plan scenarios

Assumptions are generally set and challenged in the related underlying processes and would be evidenced through papers and minutes in those committees. However, the Risk and Compliance Committee has oversight of all the underlying processes coming together and so has the remit to review and challenge assumptions being used. Where this occurs the CRO will provide feedback to the executive owner of the underlying process. The ORSA considers the range of the profit and loss probability distribution forecast, with a focus on the 1:200 (capital requirement) points of the distribution.

A range of stress and scenario tests are undertaken and monitored throughout the year by various governance committees throughout Beazley – notably the Group Nat Cat Exposure Management Group, the Group Cyber and Casualty Management Group and the Group Operational Resilience Committee. Any stress and scenario tests that are produced for the purpose of ORSA processes will be overseen and monitored by the Beazley plc Risk Committee before onwards reporting to BIdac Risk and Compliance Committee and to the Board. The ORSA report summarises the process and outcome of relevant tests.

Each year, a list of strategic and emerging risks are considered, investigated by working groups comprising executives and non-executive directors and debated further following the Board strategy day. The outcome of the review, including any actions, are summarised in the ORSA report.

B. System of governance continued

B.4 Internal control system

Beazley's internal control system includes administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the business and a compliance function. It is designed to:

- secure compliance with applicable laws, regulations and administrative processes, the effectiveness and efficiency of operations in view of the business objectives and the availability and reliability of financial and non-financial information;
- ensure that adequate and orderly records of the business and internal organisation are maintained; and
- create a strong control environment with control activities that are adequately aligned to the risks of the business and the Group's processes.

The effectiveness of the internal control system is monitored regularly to ensure that it remains relevant, effective and appropriate.

Beazley operates a three lines of defence framework and the actuarial function and the three assurance functions of compliance, risk management and internal audit are defined as 'required' functions under the Solvency II framework. Each function is structured so that it is free from influences which may compromise its ability to undertake its duties in an objective, fair and independent manner and in the case of the internal audit function in a fully independent manner. The Board receives assurance that the business is operating how it expects from the following required functions:

- the actuarial function provides assurance that the reserves held on the balance sheet are appropriate;
- the compliance function provides assurance that Beazley is operating within the relevant legal and regulatory framework;
- the risk management function provides assurance that the business is operating within risk appetite; and
- the internal audit function provides assurance that the whole internal control framework (including activities of other functions set out above) is designed and operating effectively.

The Board has set a residual minimal risk appetite for regulatory breaches. Directors, senior management and staff are all expected to comply with these high standards of ethical business conduct.

1) Compliance within the corporate governance and risk management frameworks

Ultimately the Board is responsible for ensuring compliance with the relevant regulations, BIdac's governance framework includes a number of Board and executive committees with delegated authority to consider matters within their remit. The BIdac Head of Compliance is a member of the Insurance Management Committee, and the CBI Regulatory Review Committee and attends by invitation the Risk and Compliance Committee and the Reinsurance Underwriting Group. The function may provide updates to these forums.

Within the Group's risk management framework, the compliance function's activities fall within both the first and second 'lines of defence'.

2) Compliance framework

Independence and authority

To help ensure independence, the BIdac Head of Compliance and the wider compliance function have full and free access to the BIdac chair of the Risk and Compliance Committee, the chair of the Audit Committee and the chair of the Board of Directors. The function is also authorised to have full, free and unrestricted access to all members of BIdac's management, its books and records, physical property, vendors, and other sources of information relevant to the performance of its work.

Compliance monitoring activity is performed by the second line assurance function which is independent of the first line, and the compliance function. The second line assurance function reports directly to the Group CRO.

Adequacy of resources

Management continually assess the adequacy of the resourcing of the compliance function, including as part of the planning process. In situations where additional resources are needed in the short term (e.g. for projects), management has the option of considering the use of contract staff, and consultants.

Risk appetite

The control environment supports the nature, exposure, scale and complexity of the business overseen by the Company's Risk and Compliance Committee. The Company maintains a trusting and transparent relationship with regulators, ensuring coordinated communication and the following of robust processes, policies and procedures in the business. In addition, key staff, particularly those who hold defined roles with regulatory requirements are experienced and maintained regular dialogue with regulators. The Company horizon scans for regulatory and legal matters and considers their potential impacts on the business and reports regularly to the Insurance Management Committee and the Risk and Compliance Committee in this regard.

B. System of governance continued

B.4 Internal control system continued

3) Compliance activities

The compliance team's primary responsibility is to advise the Group and Company on the proper application of existing and upcoming regulatory requirements. It does this primarily through horizon scanning, documenting policies and procedures, and providing training. The function's other key activities are summarised below.

Regulatory relationships: The compliance function coordinates BIdac's relationship with the CBI (and other regulators).

Authorisations, licenses and permissions: The function is responsible for obtaining the necessary authorisations, licenses and permissions for BIdac. This is to ensure that BIdac and its employees have the appropriate authorities throughout each country for their business activities. Some of the general types of licenses and permissions are listed below with detailed descriptions in the compliance manual:
- CBI permissions – legal entity and individuals;
- Freedom of Establishment permissions;
- Freedom of Services permissions; and
- Permissions to expand the scope of the Company's business beyond what has been agreed with the CBI.

Group policies: The function is responsible for ensuring Group policies align to BIdac regulatory requirements and make any adjustments as necessary to the following Group policies:

Whistleblowing: We operate a Whistleblowing policy which sets out how any concerns relating to wrongdoing, malpractice, or danger in connection with Beazley, should be reported, as well as the safeguarding measures in place to protect any employees who report concerns.

An independent whistleblowing hotline acts as an additional method for the workforce and others to report concerns. The whistleblowing policy is included in the annual compliance training program. The Audit Committee has overall responsibility for the effectiveness of the whistleblowing policy and procedures and the policy is approved by the Committee annually.

Financial Crime: This policy is reviewed and approved annually by the Board. It sets out that we do not tolerate criminal activity of any kind both within the business or by our business partners and third-party suppliers, and we are committed to doing the right thing and acting within the law. It covers six broad areas of anti-bribery and corruption, anti-money laundering, sanctions, fraud, market abuse and anti-tax evasion facilitation.

The policy sets out how our values and culture, systems and controls, management oversight and reporting, assurance monitoring and record keeping create an ethical environment which helps ensure the effectiveness of our policy.
Our controls require due diligence to be completed in accordance with the Group's due diligence guidelines, which are maintained by our Compliance function. Any exceptions must be reported to and approved by Compliance.

All employees have an important role to play in helping to detect, prevent and deter financial crime and our mandatory annual compliance training program ensures that our workforce is aware of our policies, how to implement them in their day-to-day roles, and how to report any breaches or suspicions. Policies and training modules are maintained by our Compliance function, are reviewed annually, and are available in our policy depository on the intranet.

Sanctions: Our sanctions policy is incorporated into our Financial Crime policy and is vital in keeping our business protected during a time of increased geopolitical uncertainty and sanctions in connection with ongoing global conflicts. To ensure that Beazley and any agents or third parties do not violate any sanctions requirements in the jurisdictions in which we operate, we also utilise third party screening and subject third parties to regular sanctions screening.

Gifts and hospitality: This policy aims to prevent conflicts of interest arising in the ordinary course of business and avoid situations that may be perceived as such. This protects the Company's reputation and also ensures employees are protected and able to conduct their business with integrity. All gifts and hospitality over the prescribed thresholds are duly logged as part of the requirements of the policy.

Committee and Board reporting: The function provides regular reports to the Risk and Compliance Committee and other committees in the executive governance framework. The reports are designed to facilitate oversight of the function's activities, or provide updates on internal and external regulatory matters.

B. System of governance continued

B.4 Internal control system continued

3) Compliance activities continued

Regulatory returns: The CBI (and other regulators) require BIdac to submit regulatory returns. For some of those returns the function plays a key role supporting the business to ensure they are filed with our regulators in a timely and accurate fashion. The function may work closely with other areas, such as finance, actuarial, data management, and the Regulatory Review Committee, to support the accurate and timely filing of returns.

Regulatory breaches: The function is responsible for reporting regulatory breaches both within the internal governance framework and externally as required.

Product development: The function provides regulatory and legal assistance during the design and launching of new products, including the expansion of existing products. Assistance includes legal research and advice to ensure products are developed efficiently, consistent with local regulations and in line with the Company’s regulatory risk appetite.

Complaints: The complaints team which is part of the conduct review group is responsible for the complaints policy. The compliance function assists with complaints activity for example by reviewing and monitoring the effectiveness of the complaints handling process and reports complaint activity and root cause analysis to the Insurance Management Committee.

4) Compliance monitoring activities

The second line assurance team provides assurance that the Group’s is adhering to regulatory requirements by undertaking the following activity:
- checking that regulatory risks are being identified;
- assessing the design and operational effectiveness of the controls in place to mitigate those risks; and
- reporting the results of its work to relevant oversight committees and boards.

The scope of compliance monitoring activity is across all Group functions, entities and locations where regulatory risk is present.

B.5 Internal audit function

The Company leverages Beazley's internal audit function, the purpose of which is to provide independent and objective assessments of the design and operating effectiveness of the system of internal controls covering the integrity of financial statements and reports, compliance with laws, regulations and corporate policies and the effective management of risks faced by Beazley in executing its strategic and tactical operating plans.

The internal audit team
The internal audit function operates as a global auditing team and has resources that are appropriate, sufficient, and effectively deployed to achieve the approved annual internal audit plan. Internal audit resource and budget requirements (head count, co-sourcing, travel, etc.) are approved on an annual basis by the Beazley plc Audit Committee.

Co-sourcing
In addition to its headcount, the internal audit function has a budget which it uses to supplement the team with subject matter expertise through co-sourcing (e.g. IT and reserving audits where necessary).

Audit universe and annual internal audit plan
The internal audit function has developed an ‘audit universe’ that represents the potential range of business areas and topics – known as ‘audit entities’ – that internal audit reviews.

The remit of the internal audit function extends to any business activity undertaken by the Company. Using a risk based methodology, audit entities are prioritised with a view to ensuring that the most material or highest risk audit entities are audited most frequently. The frequency with which audit entities are reviewed is also considered in light of regulatory requirements, emerging risks, change and other factors. Audits over BIdac activities are undertaken annually. Typically, there are between 1-3 company specific audits that covers topics which include, for example: outsourcing, reserving, licensing and financial reporting.

The audit universe – and the resulting Company annual internal audit plan – is reviewed and approved annually by the Beazley plc and BIdac Audit Committee. The Beazley annual internal audit plan consists of dedicated company audits in addition to Group-wide audits which may cover business activity undertaken by the Group on the Company’s behalf. Any significant changes to the annual internal audit plan are agreed with the Beazley plc Audit Committee and BIdac Audit Committee. The annual internal audit plan covers topics which include, for example: underwriting; claims; IT and information security.

B. System of governance continued

B.5 Internal audit function continued

Management actions and verification work

An established part of the internal audit process includes undertaking work to verify that management has adequately completed their actions arising from audits. The internal audit function undertakes verification work over management's audit actions on a risk-based approach (i.e. the internal audit function checks evidence related to the completion of all high actions and checks evidence for a risk-based sample of medium and low actions). To date, where verification work has been undertaken it has been rare for the internal audit function to identify issues with the actions management has confirmed that they would implement. Verification work can include, for example: interviewing staff, reviewing documentation and re-performing the control. Open and overdue audit actions are reported to the BIdac Audit Committee as part of standard committee reporting.

Independence and objectivity

The internal audit function's independence and objectivity is maintained in a number of ways:

- the Group Head of Internal Audit reports to a Group Non-Executive Director (the Chair of the Beazley plc Audit Committee), and for administrative matters to the Group CEO;
- the BIdac Audit Committee annually reviews and approves an internal audit charter that sets out the roles and responsibilities of the Group Head of Internal Audit and the internal audit function;
- the internal audit function is not mandated to undertake any form of business activity and its remit is restricted to assurance and consultation work as set out in the internal audit charter;
- the Company annual internal audit plan is approved by the BIdac Audit Committee (a Non-Executive committee);
- the Group Head of Internal Audit rotates staff between audit assignments to ensure objectivity and independence; and
- the Group Head of Internal Audit must provide annual representations to the BIdac Audit Committee on the ongoing independence and objectivity of the internal audit function.

B.6 Actuarial function

BIdac has a HoAF as required under the CBI Domestic Actuarial Regime. An actuarial team is located in Dublin and is supported by actuarial services provided the Beazley Group actuarial function located in the UK under the management services agreement with BML. The actuarial function fulfils the regulatory role as outlined under Solvency II and associated CBI guidance and provides professional actuarial advice to BIdac in a range of other areas as required. The HoAF can express actuarial/professional opinions free from undue influence from the business. The members of the actuarial function are required to be objective and take reasonable steps to ensure they are free from bias or from conflicts of interest that could suggest bias. The HoAF does not perform any other function at Beazley that could give rise to a conflict of interest.

The actuaries that comprise the actuarial function are fellows/students of the Society of Actuaries in Ireland/Institute & Faculty of Actuaries (or equivalent) and operate under the standards set out by those bodies and the Financial Reporting Council (or equivalent).

The HoAF is responsible for producing an annual Actuarial Opinion on Technical Provisions (AOTP) to be submitted to the CBI in accordance with the Solvency II annual Quantitative Reporting Templates (QRTs). In addition, the HoAF must present an Actuarial Report on Technical Provisions (ARTP), at least in summary form, to the Board at the same time as the AOTP and in full within two months of that date.

In addition the HoAF role must provide:

- an opinion on the underwriting policy;
- an opinion on the reinsurance arrangements; and
- a contribution to the risk management system (including the opinion on the ORSA).

B. System of governance continued

B.6 Actuarial function continued

Board interaction

The HoAF and the actuarial function have a number of interactions with the Board and its various committees. Examples of this include (but are not limited to):

- the HoAF is a member of the Insurance Management Committee and Reinsurance Underwriting Group and presents to those committees on a number of areas including pricing, rate change and reserving (including summary output from the peer review committee);
- the HoAF (or members of the actuarial function) presents the Audit Committee with the actuarial function report, including the reinsurance and underwriting opinions;
- the HoAF has catch-ups with the chair of the Audit Committee in advance of most Audit Committee meetings, thus enabling further detailing and questioning;
- the HoAF presents the ORSA opinion to the Risk and Compliance Committee;
- The Group peer review committee carries out detailed reviews of reserves across the Group, including reserves of BIdac. Here, the members of the Group actuarial function present details of their reserving output as well as that from the underwriting teams. The BIdac HoAF for BIdac attends these meetings;
- the HoAF has regular catch ups with the Group actuary and chair of the Audit Committee when required; and
- the HoAF presents the AOTP and ARTP to the Audit Committee and Board for information.

Interaction with other key functions

The actuarial function at Beazley interacts with key functions as summarised below:

Function	Relationship
Underwriting teams	The actuarial function provides support and challenge during the business planning process, support on pricing of risks and development of pricing tools and analysis in support of reinsurance purchase and optimisation.
Claims teams	The actuarial function interacts with claims managers throughout the quarterly claims reserving process and particularly during the pre-peer reviews where individual assessments are reviewed. The actuarial function liaises with the BIdac claims manager as appropriate.
Risk management	The actuarial function reviews the initial reserve risk ranges from the internal model and adjusts the range in specific cases where it is not deemed appropriate. The risk function provides the actuarial function with internal model output and assumptions for use in the calculation of the bad debt and risk margin components of the technical provisions. The actuarial function provides the CRO with actuarial support when needed. The HoAF has regular catch-ups with the CRO.
Culture and People	Support the training and development needs of the actuarial function such that a professional staff can be maintained with sufficient skills, experience and professional qualifications to meet the requirements of the actuarial function.
Data management	The actuarial function is a key consumer of data at Beazley and that data is managed by the data management team. The data management team and various business system owners ensure that the actuarial function has the internal data necessary to discharge its responsibilities. The key data inputs for the actuarial function are the gross and net triangles produced on a monthly basis.
Finance	The actuarial function and finance function work closely together, particularly during the valuation of insurance liabilities on an underwriting year, GAAP or Solvency II basis. The HoAF has regular catch-ups with the Head of Finance. The finance function provides the expense provision valuation for technical provisions.
IT	The actuarial function relies on IT for the maintenance of its hardware and software to agreed service levels, and for the delivery of agreed projects.
Underwriting and claims operations	Ensure the data in the source systems is of the required quality.

B7. Outsourcing

Although activities may be transferred to an outsourced provider, the responsibility, including regulatory responsibility may not be outsourced.

BIdac remains fully responsible for meeting all of its obligations when outsourcing functions or activities.

Outsourcing of critical or important functions or activities shall not be undertaken in such a way as to lead to any of the following:

- materially impairing the quality of the system of governance of the undertaking concerned;
- unduly increasing the operational risk;
- impairing the ability of the supervisory authorities to monitor the compliance of the undertaking with its obligations; and
- undermining continuous and satisfactory service to policy holders.

In 2023 both the Group's external third party and intra-group outsourcing policies were revised to align with recent regulatory guidance. In conjunction with Group, work has continued across external third party outsourcing to implement enhancements including, as these relate to supplier due diligence, contracting and vendor management. In the next 12 months work on implementing these enhancements will continue.

The Board of the Company is responsible for ensuring that the outsourcing policy and the outsourcing arrangements themselves comply with the relevant regulations for ensuring that due skill, care and diligence is exercised when entering into, managing or terminating any arrangement for the outsourcing to a service provider of critical, important or material functions or activities.

Beazley requires service providers to co-operate with the relevant supervisory authorities in connection with the outsourced function or activity. The service provider is required to notify and seek Beazley approval prior to sub-contracting any of the outsourced function and the due diligence undertaken. Any sub-contract is required to contain no lesser terms and conditions as that of the main contract with Beazley. Beazley staff, auditors and the relevant supervisory authorities have effective access to data related to the outsourced functions or activities and, where appropriate, the supervisory authorities have effective access to the business premises of the service provider and must be able to exercise those rights of access.

Intra-group services are provided by BML, a UK registered Company which employs all UK staff and some staff in rest of world offices. BML provides services to the Company and Beazley Solutions International Limited, the insurance intermediary, through a management services agreement. The agreement sets out the services provided and these include facilities management, IT, other operational arrangements, actuarial, finance, internal audit, compliance, risk management. The Board is ultimately responsible for the outsourced services provided by BML and the Company's Insurance Management Committee monitors the level of service provision on a monthly basis, with quarterly reporting to the Board.

The board of the company outsourcing services under the management services agreement remain fully accountable for those services. The Board is responsible for ensuring that intra-group outsource arrangements comply with the relevant regulatory regime(s) and for ensuring that the due skill, care and diligence is exercised when entering into, managing, or terminating any arrangement. The Board is responsible for ensuring that their outsourced services are being received as agreed under their contract for services.

Critical or important functions outsourced by the Company

Process	Process owner/oversight committee	Location
Underwriting and/or Claims Handling	Beazley Solutions International Limited and various managing general agents (MGAs) and third party agreements (TPAs)	EEA and UK
Management Services	Beazley Management Limited	UK

B.8 Any other information

None.

C. Risk profile

The Company, in conjunction with the Group, has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The Company is exposed to these risks both directly and, through its reinsurance contracts with BUL, syndicate 623 and 2623 and BESI. The Company categorises its risks into eight areas: insurance, strategic, market, operational, regulatory and legal risk, group, liquidity and credit risk. The Company manages climate risk within these eight main categories. Further information on climate risk is split out in section C.7 below. The sections below outline the Company's risk appetite and explain how it defines and manages each category of risk. The amount of risk taken, and therefore capital required, by risk category is shown section E.2.

The risk management framework described in section B.3 includes the ongoing assessment of these risks and of the continued effectiveness of risk mitigation techniques.

The stress and scenario framework is an important element of the risk management framework. The stress and scenario framework is applied to a range of business processes to assist management understand the vulnerabilities within the business model. This approach encourages management's involvement in risk oversight by using real life scenarios to provide qualitative and quantitative information on what risks might look like under stressed conditions and encourages a forward looking view of risk.

In addition, as a validation tool the stress and scenario framework tests:
- assumptions, particularly where data is sparse;
- assumed correlations between assumptions;
- the availability of resources and what action might be required under stressed situations;
- whether controls perform as expected under stressed situations; and
- the effect of changes in the operating environment (e.g. external events).

There are three elements to the framework:
- Stress testing involves looking at the impact on the business model of changing a single factor;
- Scenario testing involves the impact on the business model of simulating or changing a series of factors within the operating environment; and
- Reverse stress testing involves considering scenarios that are most likely to render the current business model to become unviable.

C.1 Underwriting risk

The Company assumes insurance risk through its reinsurance contract with BUL, syndicates 623 and 2623 and BESI and through the direct insurance it writes in Europe and the UK. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance premium and claims liabilities. The Group seeks insurance risks as its core business. The four key components of insurance risk are underwriting, reinsurance, claims management and reserving. The insurance risk exposure is documented in the business plan which is approved by the Board and used to guide current activities and any future developments. Each element is considered below.

a) Underwriting risk

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

The Board reviews detailed underwriting information relating to the syndicate business reinsured by the Company through its excess of loss arrangements with BUL. The below section provides an overview of the underwriting risk associated with the underlying syndicate business as well as the insurance/reinsurance business underwritten directly by the Company through its European branches. This reflects how the Board monitors and manages the business and the associated risks.

The Company's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geography and size. The annual business plans for each underwriting team reflect the Company's underwriting strategy, and set out the classes of business, the territories and the industry sectors in which business is to be written. These plans are approved by the Board of BFL, for syndicate business, and by the Board for insurance/reinsurance business. These plans are monitored by the monthly BFL Underwriting Committee and the Insurance Management Committee and the quarterly Reinsurance Underwriting Group.

C. Risk profile continued

C.1 Underwriting risk continued

a) Underwriting risk continued

The Company's underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include but are not limited to the financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses.

The Company also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. To address this, the Company sets out the exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. This is monitored through regular calculation of realistic disaster scenarios (RDS). The aggregate position is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations to which the Company is exposed.

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

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. With the increasing risk from climate change impacts and the frequency and severity of natural catastrophes, the Company continues to monitor its exposure. Where possible the Company measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods. The Company also has exposure to man-made claim aggregations, such as those arising from terrorism and data breach events.

The Company chooses to underwrite data breach insurance within the Cyber Risks division and indirectly through the reinsurance contract with BUL using its team of specialist underwriters, claims managers and data breach services managers. Other than for affirmative cyber coverage, Beazley's preference is to exclude cyber exposure where possible.

To manage the potential exposure, the Board has approved a risk budget for the aggregation of cyber related claims which is monitored by reference to the largest of seventeen realistic disaster scenarios that have been developed internally. These scenarios include the failure of a data aggregator, the failure of a shared hardware or software platform, the failure of a cloud provider, and physical damage scenarios. Whilst it is not possible to be precise, as there is sparse data on actual aggregated events, these severe scenarios are expected to be very infrequent. To manage underwriting exposures, the Group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. The reinsurance programmes purchased by Beazley entities, whether directly by the Company or indirectly by syndicates 2623 and 3623 or BESI, would partially mitigate the cost of most, but not all, data breach catastrophes.

b) Reinsurance risk

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

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

The Group's Reinsurance Security Committee ('RSC') examines and approves all reinsurers to ensure that they possess suitable security. The Company's ceded reinsurance team ensures that these guidelines are followed, undertakes the administration of reinsurance contracts, monitors and instigates our responses to any erosion of the reinsurance programmes. The Company's Insurance Management Committee receives regular updates from the ceded reinsurance team.

C. Risk profile continued

C.1 Underwriting risk continued

c) Claims management risk

Similar to section C.1(a) above, the following section provides an overview of the claims management processes carried out by the Company in respect of its direct insurance/reinsurance business, as well as the processes carried out at a syndicate level in respect of the business covered by the Company's reinsurance contracts with BUL.

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

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

d) Reserving and ultimate reserves risk

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

To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognised techniques to project gross premiums written, monitor claims development patterns and stress test ultimate insurance liability balances. An external independent actuary also performs an annual review to produce a statement of actuarial opinion for the syndicates (a significant element of this business being ultimately reinsured to BIdac).

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

In accordance with the terms of the reinsurance contracts, the Company records an outstanding claim reserve in respect of any open year reinsurance contract with BUL which, at the reporting date, is in a loss making position for the Company. The Company receives detailed information on BUL underwriting and claims activity. Further information in relation to the claims recorded under these contracts is provided in note 1 and note 12 of the BIdac Annual report and accounts 2023.

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

	5% increase in claims reserves		5% decrease in claims reserves	
	2023	2022	2023	2022
Sensitivity to insurance risk (claims reserves)	$m	$m	$m	$m
Impact on profit after tax	(17.6)	(15.5)	17.6	(15.5)

Due to the reinsurance contracts with BUL, indirect reserve risk exists for the Company. As at 31 December 2023, the level of net outstanding and IBNR claims within the reinsured syndicates totalled $4,457.9m (2022: $4,263.4m). The Company also monitors its exposure to insurance risk by location. 99% (2022: 98%) of risks underwritten by the Company are located in Europe.

C. Risk profile continued

C.2 Market risk

Market risk arises from adverse financial market movements in addition to other external market forces. The three key components of market risk are foreign exchange, interest rate, and prices of assets and derivatives. Each element is considered in further detail below.

a) Foreign exchange risk

The functional and reporting currency of the Company is US dollar. As a result, the Company is mainly exposed to fluctuations in exchange rates for any non-dollar denominated transactions and net assets. The Company deals in five main currencies, US dollars, UK sterling, Canadian dollars, Swiss francs and Euro. Transactions in all non-US dollar currencies are converted to US dollars on initial recognition with any resulting monetary items being translated to the US dollar spot rate at the reporting date. The Company holds the majority of its net assets in US dollars. The following table summarises the carrying value of net assets categorised by currency:

Total Net assets by currency	UK £ $m	CAD $ $m	EUR € $m	CHF $m	Subtotal $m	US $ $m	Total $m
31 December 2023	(75.6)	(1.5)	(71.7)	(5.5)	(154.3)	1,853.3	1,699.0
31 December 2022	79.0	(13.2)	45.1	8.6	119.5	904.1	1,023.6

The Company's assets are predominantly matched by currency to the principal underlying currencies of its insurance liabilities. The Company monitors its currency risk position on a regular basis. While the Company does carry currency risk (as outlined in the above table), this is not material to the Company's ability to meet its claims and other obligations as they fall due. Fluctuations in the Company's trading currencies against the US dollar would result in a change to net asset value.

The table below gives an indication of the impact on net assets of a % change in relative strength of US dollar against the value of sterling, Canadian dollar, Euro, and Swiss franc simultaneously. The analysis is based on the current information available.

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of UK sterling, Canadian dollar, Swiss francs and Euro relative to US dollar	2023 $m	2022 $m	2023 $m	2022 $m
Dollar weakens 30% against other currencies	(39.3)	33.1	16.4	57.9
Dollar weakens 20% against other currencies	(26.2)	22.1	11.0	38.6
Dollar weakens 10% against other currencies	(13.1)	11.0	5.5	19.3
Dollar strengthens 10% against other currencies	13.1	(11.0)	(5.5)	(19.3)
Dollar strengthens 20% against other currencies	26.2	(22.1)	(11.0)	(38.6)
Dollar strengthens 30% against other currencies	39.3	(33.1)	(16.4)	(57.9)

b) Interest rate risk

Some of the Company's financial instruments, including financial investments, are exposed to movements in market interest rates. The Company manages interest rate risk by primarily investing in short to medium duration financial assets with cash and cash equivalents. The Board monitor the duration of these assets on a regular basis.

C. Risk profile continued

C.2 Market risk continued

b) Interest rate risk continued

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

Duration 31 December 2023	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	Total $m
Fixed and floating rate securities	477.4	498.6	289.2	284.2	15.4	–	1,564.8
Cash and cash equivalents	62.0	–	–	–	–	–	62.0
Derivative financial instruments	6.8	–	–	–	–	–	6.8
Borrowings	–	–	(249.5)	–	–	(298.8)	(548.3)
Total	**546.2**	**498.6**	**39.7**	**284.2**	**15.4**	**(298.8)**	**1,085.3**

Duration 31 December 2022	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	Total $m
Fixed and floating rate securities	346.2	471.1	229.6	138.3	194.0	–	1,379.2
Cash and cash equivalents	55.2	–	–	–	–	–	55.2
Derivative financial instruments	28.8	–	–	–	–	–	28.8
Borrowings	–	–	–	(249.3)	–	(298.6)	(547.9)
Total	**430.2**	**471.1**	**229.6**	**(111.0)**	**194.0**	**(298.6)**	**915.3**

In November 2016, the Company issued $250m of subordinated tier 2 notes due in 2026. Annual interest, at a fixed rate of 5.875%, is payable on this debt. In September 2019, the Company issued $300m of additional subordinated tier 2 notes due in 2029. Annual interest, at a fixed rate of 5.5%, is payable each year on this debt.

Sensitivity analysis

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

	Impact on profit after tax for the year ended		Impact on net assets	
Shift in yield (basis points)	2023 $m	2022 $m	2023 $m	2022 $m
150 basis point increase	(41.5)	(41.4)	(41.5)	(41.4)
100 basis point increase	(27.6)	(27.6)	(27.6)	(27.6)
50 basis point increase	(13.8)	(13.8)	(13.8)	(13.8)
50 basis point decrease	13.8	13.8	13.8	13.8
100 basis point decrease	27.6	27.6	27.6	27.6
150 basis point decrease	41.5	41.4	41.5	41.4

c) Price risk

Debt securities and equities that are recognised on the balance sheet at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk. Investments are made in debt securities and equities depending on the Company's appetite for risk. These investments are well diversified with high quality, liquid securities. The Board has established comprehensive guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company. Listed investments that are quoted in an active market are recognised in the statement of financial position at quoted bid price which is deemed to be approximate exit price. If the market for the investment is not considered to be active, then the Company establishes fair value using valuation techniques. This includes using recent arm's length market transactions, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

C.2 Market risk continued

c) Price risk continued

Change in fair value of capital growth portfolio	Impact on profit after tax for the year ended 2023 $m	2022 $m	Impact on net assets 2023 $m	2022 $m
30% increase in fair value	41.4	47.4	41.4	47.4
20% increase in fair value	27.6	31.6	27.6	31.6
10% increase in fair value	13.8	15.8	13.8	15.8
10% decrease in fair value	(13.8)	(15.8)	(13.8)	(15.8)
20% decrease in fair value	(27.6)	(31.6)	(27.6)	(31.6)
30% decrease in fair value	(41.4)	(47.4)	(41.4)	(47.4)

C.3 Credit risk

This risk arises due to the failure of another party to perform its financial or contractual obligations to the Company in a timely manner. The Company accepts credit risk overall and recognises credit risk is aligned to its appetite for insurance risk. The primary sources of credit risk for the Company are:

- investments – issuer may default resulting in the Company losing all or part of the value of a financial instrument;
- amounts receivable under intra-group reinsurance contracts – the main credit risk exposure facing the Company arises by the virtue of premiums due under the reinsurance contracts in place with BUL;
- amounts receivable from third party reinsurers - external reinsurance counterparties fail to meet their obligations in relation to reinsurance receivables recognised by the Company; and
- brokers and insureds – counterparties may fail to pass on premiums or claims collected or paid on behalf of the Company.

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

Aside from intra-group exposure, the Company limits exposure to a single counterparty or a group of counterparties and analyses the geographical locations of exposures when assessing credit risk.

The Group Investment Committee has established comprehensive guidelines for the Company's investment managers regarding the type, duration and quality of investments acceptable to the Company. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

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

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

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

C. Risk profile continued

C.3 Credit risk continued

The following tables summarise the Company's concentrations of credit risk:

31 December 2023	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– Fixed and floating rate debt securities	1,253.6	311.2	–	–	–	1,564.8
– Equity linked funds	–	–	–	–	104.0	104.0
– Hedge funds	–	–	–	–	58.4	58.4
– Derivative financial assets	–	–	–	–	6.8	6.8
Cash and cash equivalents	62.0	–	–	–	–	62.0
Accrued interest	13.6	–	–	–	–	13.6
Claims outstanding, reinsurers' share	111.4	–	–	–	0.8	112.2
Debtors arising from reinsurance operations	–	–	–	–	883.7	883.7
Debtors arising from direct insurance operations	–	–	–	–	110.5	110.5
Amounts due from group companies	–	–	–	–	–	–
Total	**1,440.6**	**311.2**	**–**	**–**	**1,164.2**	**2,916.0**

31 December 2022	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– Fixed and floating rate debt securities	1,208.1	171.1	–	–	–	1,379.2
– Equity linked funds	–	–	–	–	125.3	125.3
– Hedge funds	–	–	–	–	55.2	55.2
– Derivative financial assets	–	–	–	–	28.8	28.8
Cash and cash equivalents	55.2	–	–	–	–	55.2
Accrued interest	8.9	–	–	–	–	8.9
Claims outstanding, reinsurers' share	98.0	–	–	–	0.3	98.3
Debtors arising from reinsurance operations	–	–	–	–	182.4	182.4
Debtors arising from direct insurance operations	–	–	–	–	79.1	79.1
Amounts due from group companies	–	–	–	–	25.4	25.4
Total	**1,370.2**	**171.1**	**–**	**–**	**496.5**	**2,037.8**

The carrying amount of financial assets at the reporting date represents the maximum credit exposure. At 31 December 2023, the Company held no financial assets that were past due or impaired, either for the current year under review or on a cumulative basis based on all available evidence (2022: nil). Financial investments falling within the unrated category comprise hedge funds and equity funds for which there is no readily available market data to allow classification within the respective tiers.

C. Risk profile continued

C.4 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations. The Company is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business which is an industry norm. In the majority of the cases, these claims are settled from the premiums received held as assets. The Company avoids the risk of having insufficient liquid assets to meet expected cash flow requirements.The Company's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event. This means that the Company maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return.

The following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities balance held at 31 December 2023 and 31 December 2022 (prepared on a GAAP basis):

31 December 2023	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Direct insurance/reinsurance	77.5	118.9	57.7	48.2	302.3	2.9
Intra-group reinsurance	–	–	–	–	–	–
Net insurance claims	**77.5**	**118.9**	**57.7**	**48.2**	**302.3**	

31 December 2022	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Direct insurance/reinsurance	59.1	83.2	38.3	31.3	211.9	2.1
Intra-group reinsurance	–	44.3	–	–	44.3	2.0
Net insurance claims	**59.1**	**127.5**	**38.3**	**31.3**	**256.2**	

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

Assets 31 December 2023	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	Total $m
Fixed and floating rate securities	350.8	521.9	268.7	300.2	114.5	8.7	1,564.8
Derivative financial instruments	6.8	–	–	–	–	–	6.8
Cash and cash equivalents	62.0	–	–	–	–	–	62.0
Total	**419.6**	**521.9**	**268.7**	**300.2**	**114.5**	**8.7**	**1,633.6**

Liabilities 31 December 2023	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	Total $m
Borrowings	31.2	31.2	278.9	16.5	16.5	311.4	685.7
Total	**31.2**	**31.2**	**278.9**	**16.5**	**16.5**	**311.4**	**685.7**

Assets 31 December 2022	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	Total $m
Fixed and floating rate securities	297.5	381.5	291.5	112.8	281.3	14.6	1,379.2
Derivative financial instruments	28.8	–	–	–	–	–	28.8
Cash and cash equivalents	55.2	–	–	–	–	–	55.2
Total	**381.5**	**381.5**	**291.5**	**112.8**	**281.3**	**14.6**	**1,463.2**

Liabilities 31 December 2022	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	Total $m
Borrowings	31.2	31.2	31.2	278.9	16.5	327.9	716.9
Total	**31.2**	**31.2**	**31.2**	**278.9**	**16.5**	**327.9**	**716.9**

C. Risk profile continued

C.5 Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events. The Company actively manages operational risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. The Company also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.

Key components of the Company's operational control environment include:
- modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

C.6 Other material risks

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

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

c) Group Risk
Group risk occurs where business units fail to consider the impact of their activities on other parts of the Group, as well as the risks arising from these activities. The two main components of group risk are contagion and reputation.

Contagion risk is the risk arising from actions of one part of the Group which could adversely affect any other part of the Group. The Company has limited appetite for contagion risk and minimises the impact of this occurring by operating with clear lines of communication across the Group to ensure all Group entities are well informed and working to common goals.

Reputation risk is the risk of negative publicity as a result of the Group's contractual arrangements, customers, products, services and other activities. The Group's preference is to minimise reputation risks but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

C.7 Any other information

a) Management of climate risk
The changing global climate is recognised as an important emerging risk due to its widespread potential impact on the global population, environment and economy. A key aspect of the Group's business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. The Company, as a core part of the Group, follows the Group's responsible business strategy and the Company's Board receives regular reporting in this area. As a specialist insurer, various classes of business we underwrite are subject to the effect climate change presents to the risk environment.

As part of the underwriting process, we work with our insureds to understand the risks facing their organisations, including applicable climate-related risks and to tailor insurance coverages to mitigate the associated financial risks.

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

Pricing risk: This is the risk that current pricing levels do not adequately consider the prospective impact of climate change, resulting in systemic underpricing of climate-exposed risks. The Group's business planning process establishes how much exposure in certain classes of business or geographic area we wish to accept. We benefit from a feedback loop between our claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk-by-risk transactional level considerations. Our underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk.

C. Risk profile continued

C.7 Any other information continued

a) Management of climate risk continued

Catastrophe risk: This is the risk that current models do not adequately capture the impact of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events (e.g. wildfires) that could drive higher-than-expected insured losses. The Group utilises commercial catastrophe models to facilitate the estimation of aggregate exposures based on the Group's underwriting portfolio. These catastrophe models are updated to reflect the latest scientific perspectives. Catastrophe models are evolving to include new or secondary perils which may be related to climate change. In addition, the Group runs a series of natural catastrophe RDS on a monthly basis which monitor the Group's exposure to certain scenarios that could occur. These RDS include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.

Reserve risk: This is the risk that established reserves are not sufficient to reflect the ultimate impact climate change may have on paid losses. This includes unanticipated liability risk losses arising from our clients facing litigation if they are held to be responsible for contributing to climate change, or for failing to act properly to respond to the various impacts of climate change. With support from our Group actuarial team, claims teams and other members of management the Group establishes financial provisions for our ultimate claims liabilities. The Group maintains a consistent approach to reserving to help mitigate the uncertainty within the reserves estimation process.

Asset risk: This is the risk that climate change has a significant impact across a number of industries which may negatively impact the value of investments in those companies. The Group considers the impact of climate change on its asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. We subscribe to the research services of a specialist company in the field of ESG research and have integrated their proprietary ratings into the internal credit process applied to investments in corporate debt securities. A minimum standard for ESG performance is defined and companies not meeting the required standard will be excluded from the approved list of issuers. The analysis also includes consideration of the sustainability of each company with regard to the potential decline in demand in specific sectors.

External event risk: This is the risk that the physical impact of climate-related events has a material impact on our own people, processes and systems, leading to increased operating costs or the inability to deliver uninterrupted client service. The Group has business continuity plans in place to minimise the risk of an interrupted client service in the event of a disaster.

Commercial management risk: The Group aims to minimise where possible the environmental impact of our business activities and those that arise from the occupation of our office spaces. As we operate in leased office spaces our ability to direct environmental impacts is limited. However, we do choose office space with climate change mitigation in mind, and engage with our employees, vendors and customers in an effort to reduce overall waste and our environmental footprint.

Credit risk: As a result of material natural catastrophe events, there is a risk that our reinsurance counterparties are unable to pay reinsurance balances due to the Company or the Group. If the frequency or severity of these events is increased due to climate change this could cause a corresponding increase in credit risk. An important consideration when placing our reinsurance programme is evaluation of our counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking, which considers financial strength ratings, capital metrics, performance metrics and other considerations.

Regulatory and legal risk: Regulators, investors and other stakeholders are becoming increasingly interested in companies' responses to climate change. Failure to appropriately engage with these stakeholders and provide transparent information may result in the risk of reputational damage or increased scrutiny. The Company and the Group regularly monitors the regulatory landscape to ensure that we can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk.

Liquidity and capital risk: Linked to the underwriting and credit risks noted above, there is a risk that losses resulting from unprecedented natural disasters or extreme weather could erode our ability to pay claims and remain solvent. The Company and the Group establishes capital at a 1:200 level based on the prevailing business plan.

The Group runs RDS, with natural catastrophe and cyber being run on a monthly basis, in order to determine the impact of different risks. This modelling process is overseen by the Exposure Management Team, who have developed a Complex and Emerging Underwriting Risks Protocol. This sets out the activities in place to review the potential/ complex/or emerging risks relating to underwriting and there are circa 60 deterministic realistic disaster scenarios (D-RDS) used to monitor the most significant. A recent focus has been on testing and stressing assumptions. Following this a series of activities has been initiated to embed good practices, ensuring that the risk landscape is frequently reviewed using claims trends, early flag, and external expert input.

C. Risk profile continued

C.7 Any other information continued

a) Management of climate risk continued

These include:

- challenging and stretching of risk assumptions that are documented and articulated to the relevant oversight committee;
- regular review of all D-RDS;
- external expert intelligence and challenge;
- consideration of Reserving Peer review trend analysis and observations; and
- test potential application of different policy wordings.

These scenarios are either modelled, using data drawn from third party modelling partners, or non-modelled, where experts across the Group collaborate to determine the impact. An example of our approach to non-modelled risks is our approach to wildfires, an increasing event due to the impacts of climate change. The modelling takes into account the impact of sector, geography and business segment, in order to determine the Group's exposure. In turn this helps to drive decision making across the business. The Group is currently enhancing the number of scenarios it runs to ensure we further understand the financial impact of climate related risk on the business.

On a bi-annual basis, the risk team reviews the Group's risk assessment. These assessments are a collaborative effort with all the business functions, and are an opportunity to identify emerging risk, review existing risks, and provide appropriate mitigation measures to reduce/manage the risk. This assessment is inward looking and primarily concentrates on operational processes, whilst helping to encourage open dialogue with risk owners. This assessment is where the Group's own response to climate change is noted, with the appropriate action to deliver improvements detailed.

b) Internal model governance

BIdac operates a three lines of defence process throughout the business. As with any other process in Beazley this approach is applied to the internal model. An overview of the three lines of defence for the internal model is set out below.

First line of defence:

Capital modelling team with controls including:

- formal governance through committees;
- governance through the 'knowledge requirements of an internal model' (KRAM) process; and
- in team testing process.

Second line of defence:

Risk management with controls including:

- control monitoring and reporting.

Third line of defence:

Internal audit with controls including:

- conducting reviews of the validation framework and process.

Further to the three lines of defence, the fourth element to the internal model governance framework is the independent validation (out of team testing) of the internal model that is performed annually.

Features of Beazley's governance include:

- incorporation into the existing governance structure with clear accountability;
- overlap of members on the various committees;
- the KRAM process i.e. executive and non-executive director;
- training programme for the internal model;
- transparency of internal model limitations;
- internal model control mechanisms; and
- use of external review.

c) Stress and scenario testing

Purpose

The stress and scenario framework is performed as part of business processes to assist senior management understand the vulnerabilities within the business model. This approach encourages management's involvement in risk oversight by using real life scenarios to provide qualitative and quantitative information on what risks might look like under stressed conditions and encourages a forward looking view of risk. In addition, as a validation tool the stress and scenario framework:

- tests assumptions, particularly where data is sparse;
- tests assumed correlations between assumptions;
- tests the availability of resources and what action might be required under stressed situations;
- tests whether controls perform as expected under stressed situations; and
- considers the effect of changes in the operating environment (e.g. external events).

C. Risk profile continued

C.7 Any other information continued

c) Stress and scenario testing continued

Scope

BIdac stress and scenario framework covers the following three tests:

- stress testing involves looking at the impact on the business model of changing a single factor;
- scenario testing involves the impact on the business model of simulating or changing a series of factors within the operating environment; and
- reverse stress testing involves considering scenarios that are most likely to render the current business model to become unviable.

The framework consists of a four step process, namely:

- identify and design;
- estimation;
- senior management input and challenge; and
- management action and feedback loop.

1) Identify and design (step one)

The risk management team identifies potential assumptions and scenarios for testing within each of the following business processes:

- one year business planning;
- five year business planning;
- risk assessment and risk appetite;
- emerging and strategic risk;
- capital assessment;
- realistic disaster scenarios;
- asset portfolio;
- liquidity risk;
- disaster recovery and business continuity planning; and
- corporate transactions such as acquisitions.

2) Estimation (step two)

Once scenarios are defined, the risk management team facilitate the estimation of the stress test or scenario. In summary, the following steps are performed:

- identify data and where necessary cleanse or adjust data onto a consistent basis;
- validate data;
- where there is insufficient data apply expert judgement and document this in line with the expert judgement policy;
- run the stress test or scenario test and quantify impact;
- review results for reasonableness and validate against available data; and
- iterate this process as required.

3) Senior management input and challenge (step three)

Following the completion of step two, the risk management team then meet with the relevant Executive and Non-Executive Directors (for example risk owners or as set out in the KRAM) and present the analysis performed and associated results for further discussion. This is an important step in the stress and scenario testing process as it:

- helps inform the senior management team at a detailed level of the key sensitivities and vulnerabilities for BIdac; and
- makes uses of the directors' experience to sense check the analysis and results.

It is expected that further iteration is required following discussion which in turn is summarised.

4) Management action and feedback loop (step four)

The results of the stress test and scenario planning exercises are reported to the relevant first line of defence Beazley plc committees (the Underwriting, Investment, Operations and Executive Committees and the BIdac Insurance Management Committee) as part of the business process and the second line of defence Group committees (the Beazley plc Risk Committee and BIdac Risk and Compliance Committee) within the ORSA. The ORSA is then reported to the relevant subsidiary board and the Group Board, usually through their risk committees. It is expected that the discussion at these forums will facilitate further management input and challenge and will give rise to management actions which are captured by the minutes and actioned by the relevant individual. Where relevant, this may include informing other business processes of the results of certain tests.

D. Valuation for solvency purposes

Basis of preparation

In addition to writing direct insurance in the UK and continental Europe, BIdac reinsures BUL, providing aggregate excess of loss cover for syndicates 2623 and 3623. The premium/claim payable under the contract is defined relative to the profit/loss of those syndicates. A profit will trigger a premium defined as 65% of the profit within those syndicates, in excess of $2.6m. A loss will trigger a claim defined as 65% of the loss within those syndicates, in excess of $2.6m, capped at an amount of FAL that BIdac has committed under the reinsurance contract to support BUL's participation in the syndicates' activity. The terms for the contract were revised for the 2023 year of account, the effective cede for the 2021 and 2022 underwriting years is 75% from BUL to the Company. The reinsurance contract for 2024 was renewed by the Company and BUL in December 2023. The main terms for the contract have remained the same as the contract for the 2023 year of account.

Within the GAAP balance sheet (as visible within section A2 and the 05.01/05.02 QRTs reported within the appendix), BIdac presents the reinsurance contract reserves as either a single premium or outstanding claim balance depending on whether the reported result of the syndicates is a profit or a loss. As the premium/claim balance presented in the profit or loss account represents the Company's share of the profit/loss before tax of the syndicates, premium earnings adjustments and expense deferrals have already been taken into account and therefore the balance sheet no longer contains balances related to technical balances such as deferred acquisition costs and the provision for unearned premium underlying the reinsurance contracts.

The Solvency II technical provisions are calculated in accordance with relevant Solvency II regulations. The regulations require the valuation of the contracted cash flows, which in relation to the aggregate member level excess of loss reinsurance agreement with BUL in respect of syndicates 2623 and 3623 are either a premium or a claim. This represents BIdac's share of the net profit or loss (after $2.6m excess on the 2023 underwriting year, $3.0m on the 2021 and 2022 underwriting years) of the underlying business (a single claim cash flow occurs if the outcome of the underlying business is a loss and a premium is paid if the outcome is a profit). As a future underwriting year is bound but not incepted (inclusive of the 2024 underwriting year reinsurance contract with BUL), in line with Solvency II contract boundaries, the future cashflows are included. Also within scope of the reinsurance arrangement (and therefore within the technical provisions) are the future cashflows in respect of fees due from BUL to BIdac in respect of BIdac putting up FAL to support BUL's participation in the syndicates as well as the profit commissions due from BIdac to BUL on the premiums.

The Company has entered into two new quota-share reinsurance contracts incepting 1 January 2024. The first will cede a portion of the syndicate property treaty business and the second will assume a portion of all business from the Group's newly established North American surplus lines carrier, BESI. Both reinsurance contracts are included as bound but not incepted (BBNI) in the technical provisions.

Differences between valuation for solvency purposes and financial statements

a) Insurance and intermediaries receivables

Insurance and intermediaries receivables includes the following:

- amounts due from direct insurance operations undertaken in the branches; and
- amounts due in respect of the reinsurance arrangement due to BIdac from BUL.

FAL fees and profit commissions that relate to future cashflows are implicitly included within the Solvency II technical provisions.

On a Solvency II basis, the future premium cashflows within this balance that are not overdue are recognised within the technical provisions.

b) Deferred acquisition costs

Deferred acquisition costs comprise brokerage, premium levy and staff-related costs of the underwriters acquiring new business and renewing existing contracts on the direct insurance business. Deferred acquisition costs are excluded from the valuation of assets for solvency purposes and there are no deferred acquisition costs relating to the reinsurance arrangement.

D. Valuation for solvency purposes continued

Basis of preparation continued

c) Financial assets – investments

On the GAAP balance sheet, financial assets are valued using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- **Level 1 –** valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within level 1 are bonds and treasury bills of government and government agencies which are measured based on quoted prices in active markets. Assets are valued using the bid price.
- **Level 2 –** valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates). Included within level 2 are government bonds, asset backed securities and mortgage-backed securities.
- **Level 3 –** valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value.

D.1 Assets

	2023 Solvency II $m	2023 GAAP $m	Difference $m
Insurance and intermediaries receivables	30.7	994.2	(963.5)
Reinsurance receivables	40.3	–	40.3
Deferred acquisition costs	–	41.8	(41.8)
Financial assets – investments	1,746.1	1,734.0	12.1
Other assets	1.5	13.6	(12.1)
Reinsurance recoverables	(61.7)	151.7	(213.4)
Deferred tax assets	0.5	7.3	(6.8)
Fixed assets	–	0.5	(0.5)
Receivables (trade, not insurance)	28.2	28.2	–
Cash and cash equivalents	62.0	62.0	–
Total assets	**1,847.6**	**3,033.3**	**(1,185.7)**

The table below analyses financial instruments measured at fair value at 31 December 2023, by the level in the fair value hierarchy into which the fair value measurements is categorised:

31 December 2023	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets carried at fair value				
Fixed and floating rate debt securities				
1) Government issued	923.4	–	–	923.4
2) Corporate bonds – Investment grade	312.1	329.3	–	641.4
Equity linked funds	104.0	–	–	104.0
Hedge funds	–	58.4	–	58.4
Derivative financial assets	6.8	–	–	6.8
Total financial assets at fair value	**1,346.3**	**387.7**	**–**	**1,734.0**

The Solvency II valuation of financial assets is consistent with the GAAP valuation, except for accrued interest which is reclassified from other assets into financial assets.

Other assets

On the GAAP balance sheet, other assets are comprised principally of accrued interest. This is reclassified into the underlying investments on the Solvency II balance sheet.

Reinsurance recoverables

The GAAP balance sheet presents the reinsurer's share of unearned technical provisions and claims outstanding relating to reinsurance of direct business. On a Solvency II basis, this balance presents the net of cash inflows with respect to recoveries on direct business bound at the reporting date and cash outflows with respect to premiums payable on outwards reinsurance arrangements in respect of direct business that are attributable to BIdac.

D. Valuation for solvency purposes continued

D.1 Assets continued

Deferred tax asset

Solvency II recognition and valuation with respect to deferred taxes is consistent with the GAAP balance sheet (IAS 12). As a result of the adjustments from GAAP to Solvency II, in particular with respect to the reinsurance recoverables on the direct business, a decrease in Solvency II net assets is generated and hence a deferred tax asset is recognised on a Solvency II basis. This deferred tax asset is not offset against the deferred tax liability as it relates to the business written in branches which are subject to different tax jurisdictions to the Company.

Receivables (trade, not insurance)

Receivables mainly comprise of non-insurance related inter-group balances. These are measured at amortised cost on the GAAP balance sheet, which is deemed to be an appropriate proxy for fair value. This fair value is included on the Solvency II balance sheet.

Cash and cash equivalents

On the GAAP balance sheet, cash and cash equivalents consist of cash held at bank, cash in hand, deposits held at call with banks, and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These investments have less than three months maturity from the date of acquisition. The Solvency II valuation and recognition of cash and cash equivalents is consistent with that used for the GAAP balance sheet.

D.2 Technical provisions

Summary of BIdac technical provisions:

	2023 Undiscounted			2023 Discounted		
Solvency II line of business All amounts $m	Net technical provisions ex. risk margin	Risk margin	Net technical provisions inc. risk margin	Net technical provisions ex. risk margin	Risk margin	Net technical provisions inc. risk margin
Non-proportional casualty reinsurance	(1,672.1)	124.6	(1,547.5)	(1,566.2)	116.1	(1,450.1)
General liability insurance	235.9	29.6	265.5	190.0	25.9	215.9
Non-proportional property reinsurance	23.3	1.5	24.8	22.1	1.4	23.5
Fire and other damage to insurance	(146.4)	30.3	(116.1)	(157.4)	27.3	(130.1)
Marine, Aviation & Transport	0.7	0.1	0.8	0.6	0.1	0.7
Credit and Suretyship	6.7	0.4	7.1	6.2	0.3	6.5
Non-proportional health reinsurance	0.5	–	0.5	0.4	–	0.4
Miscellaneous financial loss	(0.8)	0.2	(0.6)	(0.8)	0.2	(0.6)
Total	**(1,552.2)**	**186.7**	**(1,365.5)**	**(1,505.1)**	**171.3**	**(1,333.8)**

The BIdac technical provisions consist of four elements:

- the BIdac aggregate excess of loss reinsurance contract of BUL (intra-group reinsurance), which is classified as non-proportional casualty reinsurance;
- the non-life insurance and third-party reinsurance business. The business written to date has been a mix of general liability, fire & other damage, marine, aviation and transport, miscellaneous financial loss as well as credit and suretyship. A small amount of third-party reinsurance has been written and classified as proportional general liability reinsurance, non-proportional casualty reinsurance, non-proportional property and non-proportional health reinsurance;
- the proportional reinsurance of BESI, which is classified as proportional general liability, proportional miscellaneous financial loss and and proportional property; and
- the proportional reinsurance of the syndicates' property treaty book, which is classified as proportional property.

Given the nature of the underlying business, the approach used to estimate the technical provisions for the intra-group aggregate excess of loss reinsurance differs from that used for other elements of the portfolio. They are discussed in two parts below.

a) Intra-group reinsurance

1) Overview of reinsurance contract

The approach used to estimate the technical provisions is based on the structure and expected cashflows under the reinsurance contracts. The Company enters into a reinsurance contract with BUL covering its participation on a year of account for syndicates 2623 and 3623. The cession % varies by year. The potential cashflows in summary are as follows:

- premium – ceded % of any profit made by the syndicates reinsured (subject to an excess);
- claim – ceded % of any loss made by the syndicates reinsured (subject to a maximum % of the FAL);
- fees – BUL pays BIdac a fee as BIdac provides a percentage of FAL for the syndicates covered under the reinsurance contract; and
- profit commission – payable by the Company to BUL on any premiums received under the contract.

D. Valuation for solvency purposes continued

D.2 Technical provisions continued

2) Bases, methods and main assumptions used for valuation for solvency purposes

The bases, methods and main assumptions used for valuation for solvency purposes are as follows:
The expected profit/loss of the underlying BUL business reinsured forms the largest component of the technical provisions.
The expected profit/loss is the total of the following:

- the current view of the profit/loss of each year of account. For the closing year of account the profit/loss is the final syndicate declared result as reported to Lloyd's. For open year of account this is based on held loss ratios applied to the ultimate premium, with allowance for incurred expenses;
- the reserve releases expected between the current view of profitability and when the final syndicate result is declared;
- expected investment income;
- expenses that are expected to be incurred until the year of account closes;
- FAL fees payable from BUL to BIdac;
- profit commissions payable for each contract forecasting profit; and
- profit or losses on foreign exchange hedges in place to mitigate currency risk.

Whilst the initial view of profitability is assessed at the end of the first calendar year for the business that has been reinsured, an assumption is made on expected future reserve releases. Modelling of the expected run off of the reserve margin is carried out for this purpose. Furthermore, the expected future investment income is derived from the assumptions used in the Beazley long term business plan. Assumptions are reviewed quarterly to reflect experience to date. Where the assumptions are not deemed appropriate, alternative assumptions are used.

The provisions for profit commissions and fees have been calculated in line with the terms of the reinsurance contract for each contract forecasting a profit. FAL fees over the term of the contract are calculated. The value of foreign exchange derivatives within the reinsured syndicates is taken from current financial valuations.

Allowance has also been made for events not in data (ENIDs) and a risk margin:

- the ENIDs allowance is based on the load included in the reinsured syndicates and this is calculated using the truncated lognormal distribution, as per Lloyd's guidelines; and
- the risk margin is based on the SCR output from the BIdac internal model – this is projected forward and discounted using yield curves prescribed by European Insurance and Occupational Pensions Authority (EIOPA), with the discounted cost of capital being calculated by multiplying the discounted SCR figures by the prescribed cost of capital rate of 6% and then summing up the resulting discounted cost of capital amounts.

Unincepted business is defined as policies that have not yet incepted, but to which Beazley is legally obliged at the valuation date. The 2024 reinsurance contract between BIdac and BUL which incepted on 1 January 2024 has been included within the technical provisions as it was signed in December 2023.

The technical provisions estimated have been split between the claims and premium provisions based on whether or not the profit/loss for each reinsurance contract is known at the valuation date – the technical provisions arising for those contracts for which the actual profit is as yet unknown have been allocated to the premium provision, with the provisions for those contracts where the profit/loss has been finalised being included within the claims provision.

Future cash flows are projected using payment patterns, as detailed in the contract and discounted using the latest available EIOPA yield curves for the relevant currencies.

There is no reinsurance on this contract and so no allowance is made for recoverables from reinsurers in respect of this business.

3) Key uncertainties

At a macro level, the key areas of downside risk in the estimated profit/loss figures of the underlying BUL business being reinsured are that:

- claims experience in the Specialty risks and Cyber divisions could be worse than expected because of adverse claim frequency and/or severity or the systemic inadequacy of premium rates;
- catastrophe claims experience is materially worse than expected (natural and man made);
- investment returns may be materially different to the returns estimated; and
- the rate at which the cedant releases profit.

4) Changes in methodology/assumptions since the previous reporting period

The methodology underlying the calculations have been updated to reflect the fact that the cedant is now reserving on an IFRS17 consistent basis. Therefore, the rate at which reserve margin will release has been updated, but the overall methodology has not changed.

D. Valuation for solvency purposes continued

D.2 Technical provisions continued

5) GAAP reserves vs technical provisions

The main differences between the GAAP and Solvency II technical provisions for the intra-group reinsurance business written in BIdac are as follows:

- the GAAP reserves only consider the performance of business earned up to and including the valuation date whereas the Solvency II technical provisions allow for both the earned and unearned portions of the business written;
- within Solvency II technical provisions, there is an explicit allowance for premiums and claims on bound but unincepted contracts which are not recognised within the GAAP reserves. As a result, the 2024 reinsurance contract between BIdac and BUL, which incepts on 1 January 2024, has been included within the Solvency II technical provisions as it was signed in December 2023. The Solvency II technical provisions include:
- an allowance for the expected investment income on the underlying business being reinsured whereas the GAAP reserves do not;
- are discounted for the time value of money whilst the GAAP reserves are not; and
- the Solvency II technical provisions recognise expected future reserve releases from the 2022, 2023 and 2024 years of account, on the underlying business reinsured up to and including the finalisation of the 2024 reinsurance contract, whereas the GAAP reserves only recognise reserve releases known as at the valuation date.

The Solvency II net technical provisions (including the risk margin) for the intra-group reinsurance contract with BUL amount to ($1,451.4m) (future cash flow) on a discounted basis.

b) Direct business, third party reinsurance & internal proportional reinsurance

BIdac began writing non-life insurance and third party business during 2017 and has increased the volume of premiums written each year to 2023. The business written comprises of eight classes – general liability, fire & other damage, marine, aviation & transport, miscellaneous financial loss, non proportional health, non-proportional casualty, non-proportional property and credit and suretyship.

In addition to this, BIdac has entered into two internal quota-share reinsurance arrangements, effective 1st January 2024. The first is a two year quota-share arrangement with BESI, and the second is a quota-share cession of the syndicates' property treaty book. Both were signed in December 2023. Due to Solvency II contract boundary considerations, both appear in the Solvency II technical provisions as BBNI at 31st December 2023. They are classified under proportional property, proportional general liability and proportional miscellaneous financial loss business. Overriding commissions and profit commissions have also been modelled within the cashflows.

1) Bases, methods and main assumptions used for valuation for solvency purposes

The best estimate reserves form the largest component of the technical provisions. The gross and net reserves (third party direct insurance, third party proportional reinsurance and third party non-proportional reinsurance) have been set at a level equivalent to that of other similar business written within the Group, except where claims experience suggests otherwise. Total premiums written are sourced from finance and earnings assumptions are used to allocate between the premium and claims provision. The methodology used to derive earnings patterns assumes that premium is earned uniformly throughout the policy period.

Unincepted business is defined as policies that have not yet incepted, but to which Beazley is legally obliged at the valuation date. The two new internal proportional reinsurance treaties have been valued using business plan data for premiums, claims and expenses, appropriately validated. The methodology is consistent with that of the third party direct and reinsurance business.

The unincepted business has resulted in the year-end 2023 reinsurance recoverables being negative for premium provisions, reflecting that the outwards reinsurance premiums payable that cover the full subsequent period are allowed for, compared to only the expected recoveries arising from the unincepted gross business.

Provisions for bad debts, future expenses and ENIDs are added to the best estimate technical provisions:

- the bad debt component uses reinsurer default probabilities and loss given default percentages from the internal model. The expected reinsurer bad debt is calculated as probability of default x loss given default x exposure x average duration;
- specific bad debts are considered if necessary;
- the expense provision includes the future expenses required to run off the legally obliged business as at the valuation date. This is calculated using the historical calendar year expenses and budgeted expenses, provided by the finance team (increased for appropriate inflation); and
- the load for ENIDs is calculated using the truncated lognormal approach, as per Lloyd's guidelines.

The risk margin is based on the SCR output from the BIdac internal model – this is projected forward and discounted using yield curves prescribed by EIOPA, with the discounted cost of capital being calculated by multiplying the discounted SCR figures by the prescribed cost of capital rate of 6% and then summing up the resulting discounted cost of capital amounts.

Future cashflows are projected using payment patterns, allocated into the required currencies and discounted using the latest available EIOPA yield curves for the relevant currencies.

Valuation for solvency purposes continued

D.2 Technical provisions continued

1) Bases, methods and main assumptions used for valuation for solvency purposes continued

b) Direct business, third party reinsurance & internal proportional reinsurance continued

The reinsurance recoverables have been calculated based on the underlying reinsurance cashflows.

2) Key uncertainties

At a macro level, the key area of downside risk is in the reserving assumptions used to derive the best estimate reserves. Claims experience in both specialty risks and cyber risks may be worse than expected because of adverse claim frequency and/or severity or the systemic inadequacy of premium rates. There is also a risk that specialty or cyber catastrophes are worse than expected.

The new proportional reinsurance treaties have significant natural catastrophe exposure, and are therefore exposed to the risk that natural catastrophe claims experience is materially worse than expected. Additionally the lack of actual BIdac direct claims development history means that an approximation of the expected performance of this business has had to be used. There is a risk that this internal benchmarking data used is not reflective of actual experience.

3) Changes in methodology & assumptions

There have been no material changes to methodology since the last valuation. For the new internal proportional reinsurance treaties, business plan assumptions on premium, claims and expenses are used, appropriately validated. As business attaches to these treaties, this will be replaced with known data.

4) GAAP reserves vs technical provisions

The main differences between the GAAP and Solvency II technical provisions for the direct, third party and internal proportional reinsurance business written in BIdac are as follows:

- there are items within the GAAP reserves that are not included under Solvency II and thus lead to a reduction in the Solvency II technical provisions. This reduction includes:
  - accelerating the recognition of profit with the unearned premium reserve; and
  - a reclassification of premium debtors (not yet due) to Solvency II technical provisions to recognise future premium cashflows;
- Solvency II technical provisions are calculated on a best estimate basis and so the margin included in the GAAP reserves is excluded;
- within Solvency II technical provisions there is an explicit allowance for premiums and claims on bound but unincepted contracts which are not recognised within the GAAP reserves; and

The total BIdac GAAP reserves are $430.8m on a net of reinsurance basis, and relate entirely to the Company's direct insurance and reinsurance business in Europe. The Solvency II net technical provisions (including the risk margin) for the insurance, third party and internal proportional reinsurance business amount to $117.6m on a discounted basis.

c) Other items

1) Matching adjustment

The Company does not apply the following; the matching adjustment referred to in Article 77b of Directive 2009/138/EC, the volatility adjustment referred to in Article 77d of Directive 2009/138/EC, the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC, and the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

2) Impact of inflation on actuarial reserving

Estimates which are sensitive to economic, regulatory and geopolitical conditions could be impacted by significant changes in the external environment such as rising inflation, interest rates, climate change, and the Russia-Ukraine conflict. The actuarial review included a deep dive on management's treatment of inflation within our reserves.

Valuation for solvency purposes continued

D.3 Other liabilities

	2023 Solvency II $m	2023 GAAP $m	Difference $m
Deferred tax liabilities	161.8	–	161.8
Subordinated liabilities in basic own funds	520.8	548.3	(27.5)
Reinsurance payables	–	26.8	(26.8)
Payables (trade, not insurance)	70.8	140.1	(69.3)
Derivatives	0.6	0.6	–
Any other liabilities	21.8	35.8	(14.0)
Total liabilities	**775.8**	**751.6**	**24.2**

Deferred tax liabilities

Solvency II recognition and valuation bases with respect to deferred taxes are consistent with the GAAP balance sheet (IAS 12). As a result of the adjustments from GAAP to Solvency II, an increase in Solvency II net assets is generated for the Company and hence a deferred tax liability is recognised on a Solvency II basis. This deferred tax liability is not offset against the deferred tax asset as it relates to the Company which is subject to a different tax jurisdiction to its branches.

Subordinated liabilities

The subordinated liabilities, which are listed on the London Stock Exchange, are shown in the GAAP financial statements valued at amortised cost. The subordinated liabilities are valued at fair value based on quoted market price under Solvency II.

Reinsurance payables

As part of BIdac's participation in the Group reinsurance programme amounts relating to reinsurance payables are allocated to BIdac. This amount due is recorded in the GAAP balance sheet as reinsurance payables. Under Solvency II, this amount is reclassified into the technical provisions as it constitutes a future cashflow.

Payables

Payables (trade, not insurance) comprise of amounts due to other entities in the Group. Tax payables and profit commissions that relate to future cashflows are implicitly included within the Solvency II technical provisions.

Derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Other payables and liabilities

Other payables comprise salaries and other accruals.

D.4 Alternative methods for valuation

The Company does not use any alternative methods of valuation in its valuation of assets or liabilities.

D.5 Any other information

None.

E. Capital management

E.1 Own funds

The Company's capital strategy is to:
- invest its capital to generate an appropriate level of return;
- maintain sufficient solvency cover;
- support other Group businesses; and
- pay dividends to its shareholder.

The Company holds a significant amount of the Group's capital. Since inception the Company has always been well capitalised and the capital base has grown with earnings from the reinsurance contract with BUL and the underwriting activity of the branches. The amount of dividend paid is determined by the solvency of the Company and the requirements of the Group.

BIdac holds a level of capital over and above its regulatory requirements. The amount of surplus capital held is considered on an ongoing basis in light of the current regulatory framework, opportunities for growth and a desire to maximise returns for its shareholder. Available capital and capital requirements are projected as part of the five year business plan, which is in turn considered as part of the ORSA process.

The following table sets out BIdac's sources of funds on a Solvency II basis:

	Tier 1 $m	Tier 2 $m	Tier 3 $m	Total $m
Basic own funds				
Ordinary share capital	–	–	–	–
Reconciliation reserve	1,525.5	–	–	1,525.5
Subordinated liabilities	–	520.8	–	520.8
Deferred tax assets	–	–	0.5	0.5
Capital contribution	536.3	–	–	536.3
Total basic own funds after deductions	2,061.8	520.8	0.5	2,583.1
Ancillary own funds	–	–	–	–
Total available own funds to meet the SCR	**2,061.8**	**520.8**	**0.5**	**2,583.1**
Total available own funds to meet the MCR (Minimum Capital Requirement)	**2,061.8**	**520.8**	**–**	**2,582.6**
Total eligible own funds to meet the SCR	**2,061.8**	**520.8**	**0.5**	**2,583.1**
Total eligible own funds to meet the MCR	**2,061.8**	**62.5**	**–**	**2,124.3**
SCR				**1,250.4**
Ratio of eligible own funds to SCR				**206.6 %**

Tier 1 basic own funds

BIdac has issued one share with a nominal value of €1 (2021: €1).

A capital contribution of $536.3m was approved as tier 1 own funds by the CBI on 15 December 2015.

The reconciliation reserve at 31 December 2023 is $1,525.5m (2022: $1.004.7m). The variance is mainly driven by the change in the excess of assets over liabilities in the period. In addition, the Company has a restricted amount of $104.9m in respect of its UK branch local capital requirement following the branch's approval by the Prudential Regulation Authority (PRA) as a fully authorised third country branch.

Tier 1 own funds are eligible in full to meet both the SCR and MCR.

	2023 $m	2022 $m
Ordinary share capital	–	–
Capital contribution	536.3	536.3
Reconciliation reserve	1,525.5	1,004.7
	2,061.8	**1,541.0**

The reconciliation reserve is calculated as follows:

	2023 $m	2022 $m
Excess of assets over liabilities	2,467.2	1,610.0
Foreseeable dividends	(300.0)	–
Other adjustments	(104.9)	(67.6)
Other basic own funds	(536.8)	(537.7)
	1,525.5	**1,004.7**

The Company declared a dividend of $300.0m on 8 March 2024. This has been included as a foreseeable dividend above.

Tier 2 basic own funds

	2023 $m	2022 $m
Tier 2 subordinated debt (2026) – issued in 2016	244.1	265.9
Tier 2 subordinated debt (2029) – issued in 2019	276.7	240.3
	520.8	**506.2**

In November 2016, the Company issued $250m of subordinated tier 2 notes due in 2026 and, in September 2019, the Company issued $300m of additional subordinated tier 2 notes due in 2029. This debt is listed on the London Stock Exchange and is valued at fair value based on quoted market price.

As at 31 December 2023, $520.8m of the tier 2 own funds are eligible to meet the SCR, $62.5m are eligible to meet the MCR, being 20% of the MCR as at that date.

E. Capital management continued

E.1 Own funds continued

Reconciliation of GAAP net assets to Solvency II net assets
The table below presents the changes in net assets from the GAAP balance sheet to the Solvency II balance sheet.

	$m
GAAP net assets	**1,699.0**
Revaluation of subordinated debt to market value	35.2
Elimination of GAAP technical provisions (net of reinsurance and deferred acquisition costs)	464.6
Elimination of inter-group debtors relating to future technical cashflows	(896.4)
Replacement of Solvency II technical provisions	1,333.8
Elimination of property, plant and equipment held for own use	(0.5)
Recognition of net deferred tax on Solvency II adjustments arising	(168.5)
Solvency II net assets	**2,467.2**

The inter-group balances due to BIdac from BUL are included on the GAAP balance sheet. These consist of the following components:
- 2021 year of account profit distribution;
- FAL fees payable from BUL to BIdac up to the reporting date; and
- profit commission payable from BIdac to BUL.

The 2021 year of account profit distribution, FAL fees and profit commissions that relate to future cashflows are implicitly included within the Solvency II technical provisions.

There are no basic own-fund items subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC and there are no ancillary own funds items.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The SCR and MCR for BIdac are as follows:

	2023 $m	2022 $m
Solvency Capital Requirement	1,250.4	965.9
Minimum Capital Requirement	312.6	241.5

The SCR and underlying information, as calculated through the internal model, is subject to CBI reporting and oversight. The MCR is calculated based on net of reinsurance technical provisions at the year end and written premiums (defined as being premiums received) in the 12 months to that date.

BIdac uses an internal model to calculate its SCR. The model is designed to produce output on the required basis, namely the capital required to meet a 1 in 200 adverse loss on the Solvency II balance sheet over a one-year time horizon.

The increase in SCR is principally driven by exposure growth. This includes both reserve growth as well as increase in premium in the future year. There have also been model updates to the assumptions over the year, for example the model was updated following development of the Cyber cat model to allow the model to be used to monitor the cyber risk appetite.

The table below shows the SCR split by risk category (post diversification):

Model	Insurance risk	Market risk	Operational risk	Credit risk
2024 SCR	89%	5%	4%	2%
2023 SCR	84%	8%	6%	2%

The Company monitors its solvency against a number of metrics above the SCR. The primary metrics are the risk appetite thresholds of 140% and 170%, with the Company targeting to stay above the 170%.

Although the BUL reinsurance contract is presented as a single cash flow, management looks through the underlying risk exposures when assessing risks to the Company and the performance of the contracts.

The MCR has a floor of 25% of the SCR and therefore has increased in line with SCR growth.

E. Capital management continued

E.2 Solvency Capital Requirement and Minimum Capital Requirement continued

Use of the internal model

Beazley's internal model is regularly used across the Group in a number of management processes as well as to input into a range of ad-hoc analysis that are presented to the business to support decision making e.g. reinsurance analysis. Regular uses include:

- capital setting: the internal model is used to calculate the capital for each entity quarterly. The calculated capital is split by major risk i.e. insurance, market, credit, liquidity, operational and Group risk;
- business planning including capital allocation: the internal model is used in the business planning process to allocate capital between divisions. This, when combined with the plan profit, allows management to compare the performance of the different business lines on a risk adjusted basis;
- business planning – portfolio optimisation;
- business planning – reinsurance and Special Purpose Arrangement review: Options to change the reinsurance in the plan are tested using the internal model;
- long term plan: the capital projections and stress scenarios in the long term plan are developed using internal model output;
- Solvency II technical provisions: the internal model is used to calculate the ENIDs, risk margin and bad debt provision;
- exposure management - natural catastrophe: the natural catastrophe model component of the internal model is used to monitor catastrophe risk against appetite;
- exposure management - cyber: the cyber catastrophe model component of the internal model is used to monitor cyber risk against appetite;
- investment management: the asset risk component of the internal model is used to monitor investment risk;
- ORSA: 1-in-10 output is used to calculate key risk indicators to determine whether the entities are operating within risk appetite;
- IFRS17 risk adjustment: the model is used to calculate the likelihood of exhaustion of the risk adjustment reported under IFRS17; and
- Reinsurance return on capital: The return on capital of the current reinsurance programmes is monitored and reported.

Scope of the internal model

The scope of the internal model includes all material risks faced by by BIdac. No known important risks are excluded from the internal model. The material risks currently included in the internal model are:

- premium risk;
- catastrophe risk (both natural and man-made);
- reserving risk;
- market (or asset) risk;
- operational risk (including regulatory and legal risk);
- credit risk;
- group risk; and
- liquidity risk.

Methods used in the internal model

The internal model estimates the probability distribution forecast using a structured quantitative process that makes use of methods that are: in line with good actuarial and statistical practice; subject to regular independent challenge and appropriate to the analysis and risk profile in question. These methods use parameters that are estimated using all relevant internally available data; appropriate externally sourced industry data; data embedded in external models that have been prepared by experts; judgements based on appropriately qualified and challenged experts, and distributions which are statistically consistent with the historic data relating to the frequency and severity of loss.

Beazley uses a full internal model to calculate the SCR. The SCR is calculated by the internal model in accordance with the specifications of Article 101 of Directive 2009/138/EC; specifically that it is taken from the 99.5th percentile value at risk over a 1-year time horizon, taken directly from the probability distribution output generated by the calculation kernel and covers insurance (underwriting and reserving), asset (market), credit, and operational and group risk.

Data used in the internal model

Model inputs are made up of two key components:

- inputs to model stand-alone risk which requires:
  - exposure data. For example the number of policies of a given size and type; and
  - risk assumptions. For example setting out the range;
- of claim sizes for a given policy. These assumptions are based on relevant historic experience; and
- input to aggregate the risk:
  - risk is aggregated using a 'risk drivers' approach where the assumptions are set based on historic experience for each driver.

On-going appropriateness is ensured through the capital team's:

- internal model data input testing which includes a reconciliation of key data items. The nature and appropriateness of the data used is set out in the documentation and model change reporting.

E. Capital management continued

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Not applicable.

E.4 Differences between the standard formula and any internal model used

The internal model uses a modular structure comprising of a number of free-standing modules each addressing a risk category within scope of the internal model (see section E.2). A distribution is generated from each module. The modules are aggregated using a 'risk drivers' approach in an overall module that calculates model output. Given the risk profile of Beazley (roughly an equal split of medium-tailed and short-tailed exposures) the most important risk driver is the market cycle which impacts all classes of business and all underwriting years. Driver variables for some risk modules are based upon the output results from other modules. For example, in the credit risk module, the probability of default for reinsurers is increased when the size of the modelled catastrophe exceeds a defined level.

The internal model assesses all risk factors based on the underlying risks of the reinsurance contract. The standard formula calculation is based on the Solvency II balance sheet, which presents the reinsurance result as a single net cash flow for each contract. As a result the main differences in the methodologies and underlying assumptions used in the standard formula and in the internal model by risk module are as follows: greater premium and reserve risk is assumed for the internal model reflecting the underlying economic risks while the standard formula assumptions are applied to the technical provisions;

- catastrophe risk assumptions are lower in the IM reflecting the detailed modelling of the portfolio;
- internal model market risk is greater than the standard formula due to greater interest rate and credit spread risk assumptions as well as making allowance for the full economic risk within the underlying asset portfolio;
- greater credit and operational risk is assumed for the internal model than for the standard formula;
- the internal model assumes greater diversification between risk categories than that assumed in the standard formula with the driver of risk assumptions reflecting the risk profile; and
- internal model explicitly includes profit offsetting the risk.

The risks covered in the internal model are in line with those covered in the standard formula; however some risks, for example court inflation, are explicitly rather than implicitly modelled.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

There have been no material changes or instances of non-compliance with the SCR or MCR over the reporting period, nor is there a foreseeable risk of non-compliance which is considered in the ORSA report where a confirmation statement of continued compliance (for regulatory capital requirements and regulatory requirements for technical provisions) is made.

E.6 Any other information

On 8 March 2024, the Board approved a dividend of $300.0m payable to its sole shareholder, Beazley Ireland Holdings plc. As a non-adjusting post balance sheet event, this dividend has not been reflected in the Company's financial statements for the year ended 31 December 2023. This dividend has been included in the calculation of the available own funds as at 31 December 2023.

During 2023, the Company considered and approved a model change application to the CBI. This was approved by the CBI in February 2024.

The PRA will broadly implement the full proposals from CP12/23. These remove requirements for UK branches of foreign insurers to calculate and report branch capital requirements and MCRs and to hold local assets to cover them.

Appendix: Quantitative reporting

The following QRTs are appended to this report.

S.02.01.02	– Balance sheet
S.05.01.02	– Premiums, claims and expenses by line of business
S.17.01.02	– Non-life technical provisions
S.19.01.21	– Claims triangles
S.23.01.01	– Own funds
S.25.05.21	– Solvency Capital Requirement - for undertakings using an internal model (partial of full)
S.28.01.01	– Minimum capital requirement

All monetary amounts are in thousands of US dollars. Please note that totals may differ from the sum of component parts due to rounding. For improved presentation, some blank columns in the QRTs have been omitted. All items disclosed are consistent with the quantitative reporting submitted privately to the CBI.

Appendix: Quantitative reporting continued

S.02.01.02 – Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	–
Deferred tax assets	R0040	474
Pension benefit surplus	R0050	–
Property, plant & equipment held for own use	R0060	–
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**1,746,081**
Property (other than for own use)	R0080	–
Holdings in related undertakings, including participations	R0090	–
Equities	R0100	–
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	R0130	*1,531,997*
Government Bonds	R0140	930,089
Corporate Bonds	R0150	601,908
Structured notes	R0160	–
Collateralised securities	R0170	–
Collective Investments Undertakings	R0180	207,310
Derivatives	R0190	6,774
Deposits other than cash equivalents	R0200	–
Other investments	R0210	–
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	–
Loans on policies	R0240	–
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	**(61,707)**
Non-life and health similar to non-life	R0280	(61,707)
Non-life excluding health	R0290	(61,644)
Health similar to non-life	R0300	(63)
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	–
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	–
Insurance and intermediaries receivables	R0360	30,686
Reinsurance receivables	R0370	40,309
Receivables (trade, not insurance)	R0380	28,183
Own shares (held directly)	R0390	–
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	–
Cash and cash equivalents	R0410	62,021
Any other assets, not elsewhere shown	R0420	1,482
Total assets	**R0500**	**1,847,529**

Appendix: Quantitative reporting continued

S.02.01.02 – Balance sheet

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	**(1,395,533)**
Technical provisions – non-life (excluding health)	**R0520**	**(1,395,930)**
TP calculated as a whole	R0530	–
Best estimate	R0540	(1,567,251)
Risk margin	R0550	171,321
Technical provisions – health (similar to non-life)	**R0560**	**397**
TP calculated as a whole	R0570	–
Best estimate	R0580	379
Risk margin	R0590	18
TP – life (excluding index-linked and unit-linked)	**R0600**	**–**
Technical provisions – health (similar to life)	**R0610**	**–**
TP calculated as a whole	R0620	–
Best estimate	R0630	–
Risk margin	R0640	–
TP – life (excluding health and index-linked and unit-linked)	**R0650**	**–**
TP calculated as a whole	R0660	–
Best estimate	R0670	–
Risk margin	R0680	–
TP – index-linked and unit-linked	**R0690**	**–**
TP calculated as a whole	R0700	–
Best estimate	R0710	–
Risk margin	R0720	–
Contingent liabilities	R0740	–
Provisions other than technical provisions	R0750	–
Pension benefit obligations	R0760	–
Deposits from reinsurers	R0770	–
Deferred tax liabilities	R0780	161,830
Derivatives	R0790	627
Debts owed to credit institutions	R0800	–
Debts owed to credit institutions resident domestically	ER0801	–
Debts owed to credit institutions resident in the euro area other than domestic	ER0802	–
Debts owed to credit institutions resident in rest of the world	ER0803	–
Financial liabilities other than debts owed to credit institutions	R0810	–
debts owed to non-credit institutions	ER0811	–
debts owed to non-credit institutions resident domestically	ER0812	–
debts owed to non-credit institutions resident in the euro area other than domestic	ER0813	–
debts owed to non-credit institutions resident in rest of the world	ER0814	–
other financial liabilities (debt securities issued)	ER0815	–
Insurance & intermediaries payables	R0820	–
Reinsurance payables	R0830	–
Payables (trade, not insurance)	R0840	70,818
Subordinated liabilities	**R0850**	**520,809**
Subordinated liabilities not in BOF	R0860	–
Subordinated liabilities in BOF	R0870	520,809
Any other liabilities, not elsewhere shown	R0880	21,810
Total liabilities	**R0900**	**(619,639)**
Excess of assets over liabilities	**R1000**	**2,467,168**
Excess of assets over liabilities minus Subordinated Liabilities in BOF		**2,987,977**

Appendix: Quantitative reporting continued

S.05.01.02 – Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					Line of Business for: accepted non-proportional reinsurance			
		Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Health	Casualty	Property	Total
		C0060	C0070	C0080	C0090	C0120	C0130	C0140	C0160	C0200
Premiums written										
Gross – Direct business	R0110	3,408	5,527	286,605	9,901	3,271				**308,712**
Gross – Proportional reinsurance accepted	R0120		–	15,524	185					**15,709**
Gross – Non-proportional reinsurance accepted	R0130						1,049	702,491	19,943	**723,483**
Reinsurers' share	R0140	281	948	57,275	2,224	40	19	1	5,021	**65,809**
Net	R0200	3,127	4,579	244,854	7,862	3,231	1,030	702,490	14,922	**982,095**
Premiums earned										
Gross – Direct business	R0210	2,662	5,146	260,603	5,330	1,556				**275,297**
Gross – Proportional reinsurance accepted	R0220	–	–	6,690	185					**6,875**
Gross – Non-proportional reinsurance accepted	R0230						1,049	702,419	19,240	**722,708**
Reinsurers' share	R0240	138	777	63,655	1,319	33	16	4	4,396	**70,338**
Net	R0300	2,524	4,369	203,638	4,196	1,523	1,033	702,415	14,844	**934,542**
Claims incurred										
Gross – Direct business	R0310	559	157	110,115	1,984	1,345				**114,160**
Gross – Proportional reinsurance accepted	R0320	–	–	3,879	366					**4,245**
Gross – Non-proportional reinsurance accepted	R0330						162	(43,937)	19,563	**(24,212)**
Reinsurers' share	R0340	37	(1,065)	22,320	637	(4)	12	(7)	3,297	**25,227**
Net	R0400	522	1,222	91,674	1,713	1,349	150	(43,930)	16,266	**68,966**

Changes in other technical provision										
Gross – Direct business	**R0410**									
Gross – Proportional reinsurance accepted	R0420									
Gross – Non-proportional reinsurance accepted	R0430									
Reinsurers' share	R0440									
Net	R0500									
Expenses incurred	R0550	1,860	4,671	76,039	3,221	939	630	110,769	5,089	**203,218**

Other expenses	R1200	
Total expenses	R1300	

S.17.01.02 Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance					Accepted non-proportional reinsurance			
		Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0070	C0080	C0090	C0100	C0130	C0140	C0150	C0170	C0180
Best estimate										
Premium provisions										
Gross - Total	R0060	(122)	(215,810)	(120,551)	600	(2,001)	46	(1,108,349)	(6,170)	**(1,452,357)**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(4)	(56,882)	(65,445)	(684)	(562)	(74)	–	(2,083)	**(125,734)**
Net Best Estimate of Premium Provisions	R0150	(118)	(158,928)	(55,106)	1,284	(1,439)	120	(1,108,349)	(4,087)	**(1,326,623)**
Claims provisions										
Gross - Total	R0160	1,065	1,594	300,697	5,930	643	334	(457,855)	33,077	**(114,515)**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	343	80	55,595	1,037	7	11	25	6,929	**64,027**
Net Best Estimate of Claims Provisions	R0250	722	1,514	245,102	4,893	636	323	(457,880)	26,148	**(178,542)**
Total best estimate - gross	R0260	943	(214,216)	180,146	6,530	(1,358)	380	(1,566,204)	26,907	**(1,566,872)**
Total best estimate - net	R0270	604	(157,414)	189,996	6,177	(803)	443	(1,566,229)	22,061	**(1,505,165)**
Risk margin	R0280	99	27,305	25,892	319	195	18	116,099	1,412	**171,339**
Technical provisions - total	R0320	1,042	(186,911)	206,038	6,849	(1,163)	398	(1,450,105)	28,319	**(1,395,533)**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	339	(56,802)	(9,850)	353	(555)	(63)	25	4,846	**(61,707)**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	703	(130,109)	215,888	6,496	(608)	461	(1,450,130)	23,473	**(1,333,826)**

Appendix: Quantitative reporting continued

S.19.01.21 – Claims triangles

Accident year/ Underwriting year	Z0020	Underwriting year

Gross Claims Paid (non-cumulative)
(absolute amount)

		Development year													In current year	Sum of years (cumulative)
	Year	0	1	2	3	4	5	6	7	8	9	10 & +				
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
Prior	R0100											–		R0100	–	–
N-9	R0160	–	–	–	–	–	–	–	–	–	–			R0160	–	–
N-8	R0170	–	–	–	–	–	–	–	–	–				R0170	–	–
N-7	R0180	–	–	–	–	–	–	–	–					R0180	–	–
N-6	R0190	–	–	–	–	–	–	–						R0190	–	–
N-5	R0200	–	49	1,090	191	36	3							R0200	3	1,369
N-4	R0210	14	1,056	1,080	945	385								R0210	385	3,480
N-3	R0220	138	2,859	1,839	18,262									R0220	18,262	23,098
N-2	R0230	7,833	15,961	22,294										R0230	22,294	46,088
N-1	R0240	281	3,509											R0240	3,509	3,790
N	R0250	939												R0250	939	939
	R0260												Total	R0260	45,392	78,764

Appendix: Quantitative reporting continued

S.19.01.21 – Claims triangles

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year													
	Year	0	1	2	3	4	5	6	7	8	9	10 & +			Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300			C0360
Prior	R0100											–		R0100	–
N-9	R0160	–	–	(144,545)	–	–	–	–	–	–	–			R0160	–
N-8	R0170	–	(77,569)	(193,773)	–	–	–	–	–	–				R0170	–
N-7	R0180	46,601	–	(101,369)	–	–	–	–	–					R0180	–
N-6	R0190	(12)	353	(10,720)	365	147	122	116						R0190	109
N-5	R0200	2,451	3,933	(35,570)	2,589	5,318	4,884							R0200	4,567
N-4	R0210	15,009	24,203	(99,288)	16,296	15,187								R0210	14,135
N-3	R0220	18,865	62,272	24,268	40,672									R0220	37,840
N-2	R0230	79,218	121,610	(383,539)										R0230	(381,238)
N-1	R0240	76,873	125,494											R0240	116,165
N	R0250	102,508												R0250	93,907
	R0260												Total	R0260	(114,515)

S.23.01.01 – Own funds

		Total C0010	Tier 1-unrestricted C0020	Tier 2 C0040	Tier 3 C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35					
Ordinary share capital (gross of own shares)	R0010	–	–	–	
Share premium account related to ordinary share capital	R0030	–	–	–	
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040	–		–	–
Subordinated mutual member accounts	R0050	–	–		
Surplus funds	R0070	–		–	–
Preference shares	R0090	–		–	–
Share premium account related to preference shares	R0110				
Reconciliation reserve	R0130	**1,525,488**	1,525,488		–
Subordinated liabilities	R0140	**520,809**		520,809	
An amount equal to the value of net deferred tax assets	R0160	**474**		–	474
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	**536,317**	536,317		
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220				
Deductions					
Deductions for participations in financial and credit institutions	R0230				
Total basic own funds after deductions	R0290	**2,583,088**	2,061,805	520,809	474
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	R0300	–			
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310	–		–	–
Unpaid and uncalled preference shares callable on demand	R0320	–		–	–
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	–		–	–
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	–		–	–
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	–		–	–
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	–		–	–
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	–		–	–
Other ancillary own funds	R0390	–		–	–
Total ancillary own	R0400	–		–	–

Appendix: Quantitative reporting continued

S.23.01.01 – Own funds

		Total C0010	Tier 1-unrestricted C0020	Tier 2 C0040	Tier 3 C0050
Available and eligible own funds					
Total available own funds to meet the SCR	R0500	**2,583,088**	2,061,805	520,809	474
Total available own funds to meet the MCR	R0510	**2,582,614**	2,061,805	520,809	
Total eligible own funds to meet the SCR	R0540	**2,583,088**	2,061,805	520,809	474
Total eligible own funds to meet the MCR	R0550	**2,124,324**	2,061,805	62,519	
SCR	R0580	**1,250,372**			
MCR	R0600	**312,593**			
Ratio of Eligible own funds to SCR	R0620	**206.6 %**			
Ratio of Eligible own funds to MCR	R0640	**679.6 %**			

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	2,467,168
Own shares (held directly and indirectly)	R0710	–
Foreseeable dividends, distributions and charges	R0720	300,000
Other basic own fund items	R0730	536,791
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	104,889
Reconciliation reserve	R0760	1,525,488
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	–
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	1,844,371
Total Expected profits included in future premiums (EPIFP)	R0790	1,844,371

The following columns, which are blank, have been omitted for improved presentation:

C0030 Tier 1 restricted

S.25.05.21 – Solvency Capital Requirement - for undertakings using an internal model (partial or full)

Solvency Capital Requirement		Solvency Capital Requirement C0010	Amount Modelled C0070	USP C0090	Simplifications C0120
	Risk type				
R0020	Total diversification	(1,363,641)	–	–	–
R0030	Total diversified risk before tax	1,772,029	–	–	–
R0040	Total diversified risk after tax	1,772,029	–	–	–
R0070	Total market & credit risk	285,944	–	–	–
R0080	Market & Credit risk - diversified	46,740	–	–	–
R0190	Credit event risk not covered in market & credit risk	126,245	–	–	–
R0200	Credit event risk not covered in market & credit risk - diversified	126,245	–	–	–
R0270	Total Business risk	–	–	–	–
R0280	Total Business risk - diversified	–	–	–	–
R0310	Total Net Non-life underwriting risk	2,465,490	–	–	–
R0320	Total Net Non-life underwriting risk - diversified	1,341,053	–	–	–
R0400	Total Life & Health underwriting risk	–	–	–	–
R0410	Total Life & Health underwriting risk - diversified	–	–	–	–
R0480	Total Operational risk	257,992	–	–	–
R0490	Total Operational risk - diversified	257,992	–	–	–
R0500	Other risk	–	–	–	–

	Calculation of Solvency Capital Requirement	Value
		C0100
R0110	Total undiversified components	1,772,029
R0060	Diversification	(521,657)
R0120	Adjustment due to RFF/MAP nSCR aggregation	–
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	1,250,372
R0200	Solvency capital requirement excluding capital add-on	1,250,372
R0210	Capital add-ons already set	–
R0211	of which, capital add-ons already set - Article 37 (1) Type a	–
R0212	of which, capital add-ons already set - Article 37 (1) Type b	–
R0213	of which, capital add-ons already set - Article 37 (1) Type c	–
R0214	of which, capital add-ons already set - Article 37 (1) Type d	–
R0220	Solvency capital requirement	1,250,372

USP Key

For life underwriting risk:

1- Increase in the amount of annuity benefits

9- none

For health underwriting risk:

1- Increase in the amount of annuity benefits

2- Standard deviation NSLT health premium risk

3- Standard deviation for NSLT health gross premium risk

4- Adjustment factor for non-proportional reinsurance

5- Standard deviation for NSLT health reserve risk

9- None

For non-life underwriting risk:

4- Adjustment factor for non-proportional reinsurance

6- Standard deviation for non-life

Appendix: Quantitative reporting continued

S.25.05.21 – Solvency Capital Requirement - for undertakings using an internal model (partial or full) continued

	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	–
R0310	Amount/estimate of the loss absorbing capacity for deferred taxes	(56,111)
R0400	Capital requirement for duration-based equity risk sub-module	–
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	–
R0420	Total amount of Notional Solvency Capital Requirement for ring-fenced funds	–
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	–
R0440	Diversification effects due to RFF nSCR aggregation for article 304	–
R0450	Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	No adjustment
R0460	Net future discretionary benefits	–
		Yes/No
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Yes

		LAC DT
	Calculation of loss absorbing capacity of deferred taxes	
R0640	Amount/estimate of LAC DT	(56,111)
R0650	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	(56,111)
R0660	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	–
R0670	Amount/estimate of AC DT justified by carry back, current year	–
R0680	Amount/estimate of LAC DT justified by carry back, future years	–
R0690	Amount/estimate of Maximum LAC DT	–

Appendix: Quantitative reporting continued

S.28.01.01 – Minimum Capital Requirement

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation non-life		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0020	Non-life activities: Net (of reinsurance) written premiums in the last 12 months C0030	Non-life activities: Linear formula component for non-life insurance and reinsurance obligations – MCR calculation
Medical expense insurance and proportional reinsurance	R0020	–		–
Income protection insurance and proportional reinsurance	R0030	–		–
Workers' compensation insurance and proportional reinsurance	R0040	–		–
Motor vehicle liability insurance and proportional reinsurance	R0050	–		–
Other motor insurance and proportional reinsurance	R0060	–		–
Marine, aviation and transport insurance and proportional reinsurance	R0070	605	2,918	–
Fire and other damage to property insurance and proportional reinsurance	R0080	–	4,360	–
General liability insurance and proportional reinsurance	R0090	189,996	229,407	–
Credit and suretyship insurance and proportional reinsurance	R0100	6,177	7,431	–
Legal expenses insurance and proportional reinsurance	R0110	–	–	–
Assistance and proportional reinsurance	R0120	–	–	–
Miscellaneous financial loss insurance and proportional reinsurance	R0130	–	2,674	–
Non-proportional health reinsurance	R0140	443	792	–
Non-proportional casualty reinsurance	R0150	–	1,164	–
Non-proportional marine, aviation and transport reinsurance	R0160	–	–	–
Non-proportional property reinsurance	R0170	22,061	11,977	–

Appendix: Quantitative reporting continued

S.28.01.01 – Minimum Capital Requirement

Linear formula component for life insurance and reinsurance obligations

MCR calculation non-life		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0050	Non-life activities: Net (of reinsurance) written premiums in the last 12 months C0060	Non-life activities: Linear formula component for non-life insurance and reinsurance obligations – MCR calculation
Obligations with profit participation – guaranteed benefits	R0210			
Obligations with profit participation – future discretionary benefits	R0220			
Index-linked and unit-linked insurance obligations	R0230			
Other life (re)insurance and health (re)insurance obligations	R0240			
Total capital at risk for all life (re)insurance obligations	R0250			

		MCR components: Non-life activities C0010	MCR components: Life activities C0040	Total
MCR_{NL} Result	R0010	59,080	–	59,080
MCR_{L} Result	R0200	–	–	–

Overall MCR calculation			C0070
Linear MCR	R0300		59,080
SCR	R0310		1,250,372
MCR cap	R0320	45.00 %	562,667
MCR floor	R0330	25.00 %	312,593
Combined MCR	R0340		312,593
Absolute floor of the MCR	R0350		4,248
Minimum Capital Requirement	R0400		312,593

Beazley Insurance dac

2 Northwood Avenue
Santry
Dublin
D09 X5N9
Ireland

T +353 (0)1 854 4700

info@beazley.ie
www.beazley.com