

# Insurance. Just different.



# Welcome to our Annual report 2022

**Syndicate 4321 launched in 2022 and focuses on offering additional capacity to clients that perform well against pre-defined ESG metrics, the first in the Lloyd's market to do so.**

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# Highlights

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Syndicate capacity

**£29.0m**

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Claims ratio

**94%**

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Gross premiums written

**\$10.5m**

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Expense ratio

**71%**

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Earned premiums, net of reinsurance

**\$4.9m**

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Combined ratio

**165%**

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Loss for the financial year

**\$3.2m**

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Cash and investments

**\$8.0m**

# Strategic report of the managing agent

## Overview

Syndicate 4321 (the 'syndicate') is a start-up syndicate established in 2022 to write follow capacity insurance business at Lloyd's. The syndicate provides a choice of additional capacity for large corporate clients who meet the eligibility standards of the environmental, social and governance 'ESG' scoring criteria that have been developed with support from specialist, independent rating agencies. The syndicate offers clients the ability to not only access insurance more efficiently but also improve their own ESG supply chain credentials given that all of the syndicate's investors meet the same minimum ESG score that is required to become a client. The syndicate has been established on a multi-line basis, to ensure diversification and balance, with the additional capacity offered through a consortium arrangement led by syndicates 2623 and 623, also managed by Beazley Furlonge Limited.

## Structure of Beazley ESG Consortium



The capacities of the syndicates managed by Beazley Furlonge Ltd are as follows:

	2022 £m
2623	2,679.0
623	587.2
5623	204.4
6107	67.4
3623	41.2
3622	29.7
<b>4321</b>	<b>29.0</b>
<b>Total</b>	<b>3,637.9</b>

The result for the syndicate for the year ended 31 December 2022 is a loss of \$3,156.5k.

## Combined ratio

The combined ratio is a measure of operating performance and represents the ratio of the syndicate's total costs (excluding foreign exchange movements) to total net earned premium. The syndicate's combined ratio for 2022 was 165%, a representation of the syndicate incurring high start up costs whilst the majority premium is unearned due to the infancy of the syndicate.

## Claims

The claims ratio is a measure of the syndicate's claims experience and represents the ratio of net insurance claims to net earned premium. The 2022 claims ratio for syndicate 4321 was 94%. During its first year in operation, the syndicate has been impacted by claims activity arising from Hurricane Ian in the US.

## Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses, were \$3,447.8k. The breakdown of these costs is shown below:

	2022 \$'000
Brokerage costs	587.5
Other acquisition costs	220.3
<b>Total acquisition costs</b>	<b>807.8</b>
Administrative and other expenses	2,640.0
<b>Net operating expenses<sup>1</sup></b>	<b>3,447.8</b>

1 A further breakdown of net operating expenses can be seen in note 4.

As a percentage of net earned premium, brokerage costs are approximately 12.1%. Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns. Administrative expenses comprise primarily IT costs, facilities costs, Lloyd's central costs and other support costs. These other acquisition and administration expenses are not incurred directly by the syndicate, but are recharged to it through the Managing Agent.

The expense ratio is a measure of the net operating expenses to net earned premium. The expense ratio for 2022 is 71%.

### Reinsurance

Syndicate 4321 did not purchase any outwards reinsurance during 2022.

### Outlook

The syndicate has had a steady first year in operation but despite some adverse claims experience in its Property Risks portfolio as a result of natural catastrophes. With scale and time, the outlook for the syndicate, the first of its kind at Lloyd's, is to embed the critical ESG data gathered from clients to strive for a strong 2023 underwriting performance.

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**W J Roscoe**

**Active Underwriter**

27 February 2023

# Managing agent's report

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The managing agent presents its report for the year ended 31 December 2022.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103').

## Principal activity

The principal activity of syndicate 4321 is the underwriting of insurance risks that meet specific ESG scoring metrics at Lloyd's.

## Business review

A review of the syndicate's activities is included in the strategic report.

## Risk governance and reporting

Beazley Furlonge Limited's Board of Directors has the responsibility for defining and monitoring the risk appetite within which Beazley Furlonge Limited ('BFL') and the syndicates operate (collectively, 'Beazley'), with key individuals and committees accountable for day-to-day management of risks and controls. Regular reporting by the risk management team in Board meetings and senior management committees ensures that risks are monitored and managed as they arise.

## Climate change/Responsible business

Led by Beazley plc's Board and supported by the Boards of Beazley Furlonge Ltd, Beazley Insurance dac, and Beazley Insurance Company Inc, ESG issues and climate related risks have become regular agenda items throughout 2022. In March 2021 we launched our first Responsible Business Strategy. This document, and the subsequent update which is published alongside the Beazley plc annual report and accounts, sets out the goals and targets across a wider range of ESG issues, including climate change.

In addition to the summary Responsible Business report, Beazley plc discloses its compliance with the Task Force on Climate-Related Disclosures' ('TCFD') Recommendations and Recommended Disclosures at the consolidated group level in the Beazley plc annual report and accounts produced annually. The 2022 Beazley Annual report and accounts have not been published as at the date of this report but are expected to be available on the Group's website in March 2023.

Although not specifically listed in the risk categories detailed further in this report, the Board of Beazley Furlonge Ltd deem climate risk to be inherently embedded within all risks managed across the syndicate.

## Risk management

Beazley prides itself on understanding the drivers of risk, supporting and challenging management on managing those risks for the syndicate and its clients. Whilst Beazley managed the challenges that growth can bring, it remains mindful of emerging risks as well as regulatory and legal changes. The risk function continues engaging in key strategic projects to provide second line challenge and ensure the risk management framework adapts accordingly.

During the year, refinements were made to the risk management framework including our approach to articulating and monitoring risk appetite. This work will continue during 2023 to ensure the framework adapts to the risk profile and continues to embed a strong risk culture. The risk function has continued working with colleagues across the first and second lines of defence to ensure effective risk management practices remain embedded in business processes. Ultimately, this will help ensure achievement of strategic objectives. You will be able to read the details of the performance of our risk framework further in this report, but we would like to pick out some highlights for our work on risk during 2022 below.

## Control Statement

The latest report to the Board confirmed that the control environment identified no significant failings or weaknesses in key processes and the syndicate was operating within risk appetite as at 31 December 2022 and the systems have been in place for the entirety of 2022.

## Risk management oversight and framework

The Beazley plc Board delegates direct oversight of the risk management function and framework to its audit and risk committee, and the primary regulated subsidiary Boards and their audit and risk committees. The Board delegates executive oversight of the risk management function and framework to the executive committee, which fulfils this responsibility primarily through its risk and regulatory committee.

The risk management framework establishes the approach to identifying, measuring, mitigating, monitoring, and reporting on key risks. The risk management framework supports the syndicate 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. The ongoing communication and collaboration across the three lines of defence ensures that the syndicate identifies and manages risks effectively.

A suite of risk management reports support senior management and the Board in discharging their oversight and decision-making responsibilities. The risk reports include updates on risk appetite, risk profiles, stress and scenario testing, reverse stress testing, emerging and heightened risks, a report to the remuneration committee, and the Own Risk and Solvency Assessment (ORSA) report.

The Board approved the risk appetite statements during the past year and received updates on monitoring against risk appetite throughout the year.

The business operated a control environment which supported mitigating risks to stay within risk appetite. The risk management function reviewed and challenged the control environment through various risk management activities throughout the year. In addition, the risk management function worked with the capital model and exposure management teams, particularly in relation to validation of the internal model, preparing the ORSA, monitoring risk appetite and through the business planning process. These teams provided regular reports to the underwriting governance committee which the Chief Risk Officer chairs.

The risk management plan considers, among other inputs, the inherent and residual risk scores for each risk event. 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 approach to identifying emerging risks includes inputs from ‘risk-owners’, post-risk incident lessons learned and discussions at horizon scanning groups. The potential materiality and likelihood of impacts helps classify emerging risks which the risk management function monitors. Key emerging risks in 2022 included geopolitical risks, the macroeconomic environment (e.g., inflation, global insurance market trends) and ESG.

## Principal risks the syndicate faces

Below summarises the principle risks the syndicate faces, the control environment, governance and oversight that mitigate these risks.

Key to table below:

- ▲ Within risk appetite
- Trending outside of risk appetite
- ▼ Outside of risk appetite

Principal risks and summary descriptions	Mitigation and monitoring
<p><b>Insurance ▲</b></p> <p>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.</p> <ul style="list-style-type: none"><li>• Market cycle: potential systematic mispricing of medium or long-tailed business that does not support revenue to invest and cover future claims;</li><li>• 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; and</li><li>• Reserving: reserves may not be sufficiently established to reflect the ultimate paid losses.</li></ul>	<p>BFL used a range of techniques to mitigate insurance risks including pricing tools, analysis of macro trends and claim frequency, including alignment with pricing and ensured exposure was not overly concentrated in any one area. especially those with higher risk.</p> <p>The strategic approach to exposure management and a comprehensive internal and external programme helped to reduce volatility of profits in addition to managing net exposure with the transfer of risk.</p> <p>The prudent and comprehensive approach to reserving helped ensure that claims covered by the policy wording were paid, delivering the right outcome to clients. High calibre claims and underwriting professionals deliver expert service to insureds and claims handling, The underwriting committee oversaw these risks.</p>

# Managing agent's report continued

Principal risks and summary descriptions	Mitigation and monitoring
<p><b>Credit ▲</b> This risk of failure of another party to perform its financial or contractual obligations in a timely manner. Exposure to credit risk from its brokers, and coverholders.</p>	<p>Credit risk arising from brokers (non-payment of premiums) and coverholders being low relied on robust due diligence processes and ongoing monitoring of aged debt and financial status.</p>
<p><b>Group ▲</b> The risk of an occurrence in one area of BFL, which adversely affects another area in the syndicate 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 brand.</p>	<p>Risk culture was centred on principles of transparency, accountability, and awareness. This expected outcome continued to help maintain a strong risk culture that supported the embedding of risk management such that it makes a difference and was overseen by the Board. An effective risk culture supported strong risk management, encouraged sound risk taking, created an awareness of risks and emerging risks. The executive committee and the Board oversaw this risk.</p>
<p><b>Liquidity ▲</b> Investments and / or other assets are not available or adequate in order to settle financial obligations when they fall due.</p>	<p>By managing liquidity the managing agent maximised flexibility in the management of financial assets, including investment strategy, without incurring unacceptable liquidity risks over any time horizon and in doing so helps to ensure that clients and creditors were financially protected. Beazley periodically assessed the liquidity position of the syndicate and is overseen by the BFL audit and risk committees. This included a benchmarking view from a third-party assessment.</p>
<p><b>Regulatory and legal ▲</b> Noncompliance with regulatory and legal requirements, failing to operate in line with the relevant regulatory framework in the territories where the syndicate operates leading to being unable to underwrite, manage claims, fines, etc.</p>	<p>The control environment supports the nature, exposure scale and complexity of the business with oversight from the risk and regulatory committee. Beazley maintains a trusting and transparent relationship with regulators, ensuring coordinated communication and robust process, 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 syndicate horizon scans for regulatory and legal matters and considers their potential impacts on the business.</p>
<p><b>Operational ▲</b> 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.</p>	<p>Beazley attracts and nurture talented colleagues who champion diversity of thought, creating a culture of empowerment, collaboration and innovation to build an environment of employee wellbeing. The managing agent employs high calibre, motivated, loyal, and productive people with sufficient competence to perform the required duties.</p> <p>Beazley invests in technology and re-engineering processes to support the operation of these activities which is overseen by the operations committee. Beazley has policies and procedures across the organisation which ensure effective and efficient operations and drive productivity and quality across people, processes and systems to continue to enable scalable growth.</p> <p>The business continuity and 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. There were effective controls in the day-to-day operations around information security, including cyber resilience to mitigate the damage that loss of access to data or the amendment of data can have on the ability to operate.</p>



## Principal risks and summary descriptions

## Mitigation and monitoring

### Strategic ▲

Events or decisions that potentially stop the syndicate 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 syndicate continuously addresses key strategic opportunities and challenges itself to be the highest performing sustainable specialist insurer. BFL commits to ensuring 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.

BFL 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 executive committee and the Board oversee these risks.

### Enterprise ▲

Pervasive risks impacting multiple areas of the syndicate (e.g. conduct, reputation, ESG, concentration and / or viability) occurring through real or perceived action, or lack of action taken, a regulatory body, market and / or third-party used by the business. A negative change to the syndicate reputation would have a detrimental impact to profitability and public perception.

Beazley aims to strategically create a sustainable business for its people, partners and planet through its responsible business goals. The syndicate embeds ESG principles and ambitions, focusses on reducing its carbon footprint, and contributing appropriately to its social environment. The syndicate recognises the impact of climate change. As part of its responsible business objectives, the syndicate sets out targets for its carbon footprint impact, the consideration of climate change in its underwriting and pricing and its investment portfolio. For more detail on risks and mitigations regarding climate related risks, please see the TCFD disclosures in the Beazley Annual report which is available on the Beazley corporate website from March 2023.

Inclusion and diversity and peoples well-being continue to be fundamental to achieving these goals. The syndicate considers regulatory requirements and expectations and market practice, however, does not necessarily move with every prevailing market trend.

The syndicate recognises the needs of our clients in everything we do. We deliver the right outcomes to our clients through the product lifecycle. The conduct review group oversees this risk.

## Directors

A list of Directors of the managing agent who held office during the year can be found on page 30 of this syndicate annual report.

## Disclosure of information to the auditor

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

## Auditor

During the year, pursuant to Section 13(3) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the managing agent appointed Ernst & Young LLP to be the auditor of the syndicate.

On behalf of the Board

S M Lake

Finance Director

27 February 2023

# Statement of managing agent's responsibilities

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The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the Directors of the managing agent to prepare their syndicate annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the Directors of the managing agent must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these financial statements, the Directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The Directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors of the managing agent are responsible for the maintenance and integrity of the syndicate and financial information included on the syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

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**S M Lake**  
**Finance Director**

27 February 2023

# Independent auditor's report to the members of Syndicate 4321

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## Opinion

We have audited the syndicate annual accounts of Syndicate 4321 ('the syndicate') for the year ended 31 December 2022 which comprise the Statement of comprehensive income, the Statement of changes in members' balances, the Balance sheet, the Cash flow statement and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

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

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

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

## Other information

The other information comprises the information included in the annual report, other than the syndicate annual accounts and our auditor's report thereon. The Directors of the Managing Agent are responsible for the other information contained within the annual report and accounts.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the syndicate annual accounts themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

# Independent auditor's report to the members of Syndicate 4321 continued

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## Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the managing agent's report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

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

## Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the syndicate annual accounts

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

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the managing agent and management.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UK GAAP), and requirements referred to by Lloyd's in the instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of Lloyd's of London, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate annual accounts' items.
- For both direct and other laws and regulations, our procedures involved: making enquiries of the Directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the syndicate's annual accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets and external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk including:
  - Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries, we assessed if there were any indicators of management bias in the valuation of insurance liabilities and the recognition of estimated premium income.
  - Evaluating the business rationale for significant and/or unusual transactions.

These procedures included testing manual journals and were designed to provide reasonable assurance that the Annual Accounts were free from fraud or error.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

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**Niamh Byrne (Senior statutory auditor)**  
**for and on behalf of Ernst & Young LLP, Statutory Auditor**  
**London**

27 February 2023

# Statement of comprehensive income

for the year ended 31 December 2022

	Notes	2022 \$'000
Gross premiums written	3	10,540.6
Change in the gross provision for unearned premiums	13	(5,672.8)
<b>Earned premiums</b>	3	<b>4,867.8</b>
<b>Allocated investment return transferred from the non-technical account</b>		<b>4.3</b>
Gross claims paid		(15.8)
Change in the gross provision for claims		(4,579.4)
<b>Claims incurred</b>		<b>(4,595.2)</b>
<b>Net operating expenses</b>	4	<b>(3,447.8)</b>
<b>Balance on the technical account</b>		<b>(3,170.9)</b>
Investment income	8	4.3
<b>Net investment return</b>		<b>4.3</b>
Allocated investment return transferred to general business technical account		(4.3)
Gain on foreign exchange		14.4
<b>Loss for the financial year</b>		<b>(3,156.5)</b>

The notes on pages 16 to 29 form part of these financial statements.

# Statement of changes in members' balances

for the year ended 31 December 2022

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	2022 \$'000
Total comprehensive loss for the financial year	(3,156.5)
<b>Members' balances carried forward at 31 December</b>	<b>(3,156.5)</b>

The notes on pages 16 to 29 form part of these financial statements.

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

# Balance sheet

at 31 December 2022

	Notes	2022 \$'000
<b>Assets</b>		
Financial assets at fair value	9	1,089.4
<b>Debtors</b>		
Debtors arising out of direct insurance operations		49.9
Debtors arising out of reinsurance operations		777.0
Other debtors	11	53.0
		<b>879.9</b>
Cash at bank and in hand	12	6,897.0
Deferred acquisition costs	10	641.8
<b>Total Assets</b>		<b>9,508.1</b>
<b>Liabilities, capital and reserves</b>		
<b>Capital and reserves</b>		
Members' balances attributable to underwriting participations		(3,156.5)
<b>Technical provisions</b>		
Provision for unearned premiums	13	5,635.1
Claims outstanding	13	4,556.4
		<b>10,191.5</b>
<b>Creditors</b>		
Creditors arising out of direct insurance operations	14	0.8
Other creditors	14	2,279.9
		<b>2,280.7</b>
<b>Accruals and deferred income</b>		<b>192.4</b>
<b>Total liabilities, capital and reserves</b>		<b>9,508.1</b>

The notes on pages 16 to 29 form part of these financial statements.

The syndicate annual accounts on pages 12 to 29 were approved by the Board of Beazley Furlonge Limited on 27 February 2023 and were signed on its behalf by:

**A P Cox**  
Chief Executive Officer

**S M Lake**  
Finance Director



# Cash flow statement

for the year ended 31 December 2022

	Notes	2022 \$'000
<b>Reconciliation of total comprehensive loss for the financial year to net cash inflow from operating activities</b>		
Loss for the financial year		(3,156.5)
Increase in gross technical provisions		10,191.5
Increase in debtors		(879.9)
Increase in creditors		2,473.1
Investment return		(4.3)
Increase in deferred acquisition costs		(641.8)
<b>Net cash flows generated from operating activities</b>		<b>7,982.1</b>
Net purchase of investments		(401.0)
Cash received from investment return		4.3
<b>Net cash outflow from investing activities</b>		<b>(396.7)</b>
<b>Net increase in cash and cash equivalents</b>		<b>7,585.4</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>-</b>
Effect of exchange rate changes on cash and cash equivalents		-
<b>Cash and cash equivalents at the end of the year</b>	12	<b>7,585.4</b>

The notes on pages 16 to 29 form part of these financial statements

# Notes to the syndicate annual accounts

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## 1. Accounting policies

### Basis of preparation

Syndicate 4321 (the 'syndicate') comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the syndicate's managing agent is given on page 32.

These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 'Regulations'), the applicable Accounting Standards in the United Kingdom and the Republic of Ireland, Financial Reporting Standard 102 'FRS 102' and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 'FRS 103'.

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in US dollars, being the syndicate's functional currency, and in thousands, unless noted otherwise.

The financial statements of the syndicate have been prepared on a going concern basis. The syndicate's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report contained in the annual report. In addition, the Strategic report includes the syndicate's risk management objectives and the entity's objectives, policies and processes for managing its capital.

In assessing the syndicate's going concern position as at 31 December 2022, the managing agent has considered a number of factors, including the current statement of financial position and the syndicate's strategic and financial plan. The assessment concluded that, for the foreseeable future, the syndicate has sufficient capital and liquidity for the 12 months from the date the financial statements are authorised for issue.

### Use of estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Estimates which are sensitive to economic, regulatory and geopolitical conditions could be impacted by significant changes in the external environment such as rising inflation, rising interest rates, climate change, and geo-political events such as the Russia-Ukraine conflict.

Specific to climate change, since responses to it are still developing, it is not possible to consider all possible future outcomes when determining asset and liability valuations, and timing of future cash flows, as these are not yet known. Nevertheless, the current management view is that reasonably possible changes arising from climate risks would not have a material impact on asset and liability valuations at the year-end date.

Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

#### *(a) Valuation of insurance contract liabilities*

The most critical estimate included within the syndicate's balance sheet is the estimate for insurance losses incurred but not reported ('IBNR'), which is included within total technical provisions and reinsurers' share of technical provisions in the balance sheet and note 13. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for.

The best estimate of the most likely ultimate outcome is used when calculating notified claims. This estimate is based upon the facts available at the time, in conjunction with the claims manager's view of likely future developments. The total estimate as at 31 December 2022 included within claims outstanding is \$3,075.4k.

#### *(b) Premium estimates*

Premium written is initially based on the estimated premium income ('EPI') of each contract. Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received. EPI estimates are updated to reflect changes in an underwriters expectation through consultation with brokers and third-party coverholders, changes in market conditions, historic experience and to reflect actual cash received for a contract.

## 1. Accounting policies continued

### Significant accounting policies

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

#### *(a) Premiums*

Gross premiums written comprise premiums on contracts inception during the financial year together with adjustments to premiums written in previous accounting periods and estimates for premiums from contracts entered into during the course of the year. Gross written premiums are stated before the deduction of brokerage, taxes, duties levied on premiums and other deductions.

#### *(b) Unearned premiums*

A provision for unearned premiums represents that part of the gross premiums written that is estimated will be earned in the following or subsequent financial periods. It is calculated using the daily pro-rata method, under which the premium is apportioned over the period of risk.

#### *(c) Claims incurred*

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported ('IBNR') and future claims handling provisions. The provision for claims outstanding comprises amounts set aside for claims advised and IBNR.

The IBNR amount is based on estimates calculated using widely accepted actuarial techniques which are reviewed quarterly by the group actuary and annually by the independent syndicate reporting actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. For more recent underwriting, regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating claims provisions are that the past experience is a reasonable predictor of likely future claims development and that the rating and other models used to analyse current business are a fair reflection of the likely level of ultimate claims to be incurred.

A provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the managing agent. The managing agent takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

#### *(d) Liability adequacy testing*

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of deferred acquisition costs ('DAC') and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses as well as investment income from the assets backing such liabilities are used.

Any deficiency is immediately charged to the statement of comprehensive income and subsequently by establishing a unexpired risk provision for losses arising from liability adequacy tests.

#### *(e) Acquisition costs*

Acquisition costs comprise brokerage, premium levies, and staff related costs of the underwriters acquiring the business. The proportion of acquisition costs in respect of unearned premiums is deferred at the balance sheet date and recognised in later periods when the related premiums are earned.

#### *(f) Foreign currencies*

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the syndicate considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction.

# Notes to the syndicate annual accounts continued

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## 1. Accounting policies continued

### (g) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business.

### (h) Financial instruments

Financial instruments are recognised in the balance sheet at such time that the syndicate becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date the syndicate commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership.

Financial liabilities are derecognised if the syndicate's obligations specified in the contract expire, are discharged or cancelled.

#### *Financial assets*

On acquisition of a financial asset, the syndicate is required to classify the asset into the following categories: financial assets at fair value through profit or loss, loans and receivables, assets held to maturity and assets available for sale. The syndicate does not make use of the held to maturity and available for sale classifications.

#### *Financial assets at fair value through profit or loss*

All financial assets are designated as fair value through profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the syndicate's key management. The syndicate's investment strategy is to invest and evaluate performance with reference to their fair values.

#### *Fair value measurement*

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the income statement when incurred. Financial assets at fair value through profit or loss are continuously measured at fair value, and changes therein are recognised in the statement of comprehensive income. Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income, as these items are accounted for separately.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the income statement when incurred. Financial assets at fair value through profit or loss are continuously measured at fair value, and changes therein are recognised in the statement of comprehensive income. Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income, as these items are accounted for separately.

## 1. Accounting policies continued

### *(i) Insurance debtors and creditors*

Insurance debtors and creditors include amounts due to and from agents, brokers and insurance contract holders. These are classified as debt instruments as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance debtors are measured at amortised cost less any provision for impairments. Insurance creditors are stated at amortised cost. The Syndicate does not have any debtors directly with policyholders, all transactions occur via an intermediary.

### *(j) Other debtors*

Other debtors principally consist of intercompany debtor balances and sundry debtors and are carried at amortised cost less any impairment losses.

### *(k) Other creditors*

Other creditors are stated at amortised cost determined on the effective interest rate method.

### *(l) Impairment of financial assets*

Assessment is made at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the assets carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in profit or loss.

### *(m) Cash and cash equivalents*

This consists of cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition. Cash at bank and in hand balances are classified as loans and receivables and carried at amortised cost less any impairment losses.

### *(n) Taxation*

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

## 2. Risk management

The syndicate 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 sections below outline the syndicate's risk appetite and explain how it defines and manages each category of risk.

### 2.1 Insurance risk

The syndicate's insurance business assumes the risk of loss from persons or organisations that are directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, reinsurance, claims management and reserving. Each element is considered below:

# Notes to the syndicate annual accounts continued

## 2. Risk management continued

### *(a) Underwriting risk*

Underwriting risk comprises four elements that apply to all insurance products offered by the syndicate:

- 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 risk 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 annual business plans for each underwriting team reflect the syndicate'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 Beazley Furlong Limited and monitored by the underwriting committee.

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

The syndicate 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 syndicate 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 RDS ('Realistic Disaster Scenarios'). 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 syndicate is exposed.

The syndicate uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses. Stress and scenario tests are also run using these models. The range of scenarios considered includes natural catastrophe, 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 the frequency and severity of natural catastrophes, the managing agent continues to monitor its exposure. Where possible the syndicate 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. The key gross exposures are calculated on the basis of extreme events at a range of return periods.

To manage underwriting exposures, the managing agent 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. In 2022, the absolute maximum line that any one underwriter could commit the host syndicate to was \$2.5m. In most cases, maximum lines for classes of business were much lower than this.

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters and peer review for all risks exceeding individual underwriters authority limits. Exception reports are also run regularly to monitor compliance.

All underwriters also have a right to refuse renewal or change the terms and conditions of insurance contracts upon renewal. Rate monitoring details, including limits, deductibles, exposures, terms and conditions and risk characteristics are also captured and the results are combined to monitor the rating environment for each class of business.

### *(b) Claims management risk*

Claims management risk may arise within the syndicate in the event of inaccurate or incomplete claims reporting for facilities underwritten. As a follow syndicate which delegates claims authority to approved brokers, consortia or coverholders, the syndicate relies on accurate claims reporting from third parties.

The managing agent'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. 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.

## 2. Risk management continued

### (c) Reserving and ultimate reserves risk

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

To manage reserving and ultimate reserves risk, the managing agent's 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 syndicate.

The objective of the syndicate'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.

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

	5% increase in net claims reserves	5% decreases in net claims reserves
	2022	2022
	\$'000	\$'000
<b>Sensitivity to insurance risk (claims reserves)</b>		
<b>Impact on profit and equity</b>	<b>(227.8)</b>	<b>227.8</b>

The syndicate also monitors its exposure to insurance risk by location. The below table provides an analysis of the geographical breakdown of its written premiums.

	2022 %
US	49
Europe <sup>1</sup>	8
Other	43
<b>Total</b>	<b>100</b>

1. Europe includes UK. Other includes Canada and Far East.

### 2.2 Market risk

Market risk arises where the value of assets and liabilities changes as a result of movements in foreign exchange rates and interest rates.

#### *Foreign exchange risk*

The functional currency of the syndicate is US dollars and the presentation currency in which the syndicate reports its results is US dollars. The effect of this on foreign exchange risk is that the syndicate is exposed to fluctuations in exchange rates for non-dollar denominated transactions and net assets.

The syndicate has four main settlement currencies: US dollars, sterling, Canadian dollars and euro. Transactions in all currencies are converted to US dollars on initial recognition and revalued at the reporting date. Remaining foreign exchange risk is actively managed as described below.

The syndicate's assets are broadly matched by currency to the principal underlying settlement currencies of its insurance liabilities. This helps mitigate the risk that future movements in exchange rates would materially impact the syndicate's assets required to cover its insurance liabilities.

# Notes to the syndicate annual accounts continued

## 2. Risk management continued

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

	UK £ \$'000	CAD \$ \$'000	EUR € \$'000	Subtotal \$'000	US \$ \$'000	Total \$'000
31 December 2022						
Total assets	2,150.1	801.4	629.6	3,581.1	5,927.0	9,508.1
Total liabilities	(4,612.8)	(791.7)	(584.0)	(5,988.5)	(6,676.1)	(12,664.6)
<b>Net assets</b>	<b>(2,462.7)</b>	<b>9.7</b>	<b>45.6</b>	<b>(2,407.4)</b>	<b>(749.1)</b>	<b>(3,156.5)</b>

Fluctuations in the syndicate's trading currencies against the US dollar would result in a change to profit and to net asset value. The table below gives an indication of the impact of the impact of a percentage change in relative strength of US dollar against the value of sterling, Canadian dollar and euro, simultaneously. The analysis is based on the current information available and an assumption that the impact of foreign exchange on non-monetary items will be nil.

	Impact on profit for the year ended	Impact on net assets
	2022	2022
	\$'000	\$'000
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar		
Dollar weakens 30% against other currencies	(722.2)	(722.2)
Dollar weakens 20% against other currencies	(481.5)	(481.5)
Dollar weakens 10% against other currencies	(240.7)	(240.7)
Dollar strengthens 10% against other currencies	240.7	240.7
Dollar strengthens 20% against other currencies	481.5	481.5
Dollar strengthens 30% against other currencies	722.2	722.2

### Interest rate risk

Some of the syndicate's financial instruments, including financial investments, cash and borrowings, are exposed to movements in market interest rates.

The syndicate manages interest rate risk by primarily investing in short duration financial investments and cash. The investment committee monitors the duration of these assets on a regular basis.

Duration	<1 yr \$'000	1-2 yrs \$'000	2-3 yrs \$'000	3-4 yrs \$'000	4-5 yrs \$'000	5-10 yrs \$'000	>10 yrs \$'000	Total \$'000
31 December 2022								
Fixed and floating rate debt securities	1,089.4	-	-	-	-	-	-	1,089.4
Cash at bank and in hand	6,897.0	-	-	-	-	-	-	6,897.0
<b>Total</b>	<b>7,986.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,986.4</b>

### Price risk

Financial assets and derivatives 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.

Financial assets include fixed and floating debt securities. The fixed income securities are well diversified across high quality, liquid securities. The price risk associated with these securities is predominantly interest, foreign exchange and credit risk related. The investment committee 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 are recognised on the balance sheet at quoted bid price. If the market for the investment is not considered to be active, then the syndicate 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.



## 2. Risk management continued

### 2.3 Credit risk

Credit risk arises from the failure of another party to perform its financial or contractual obligations to the syndicate in a timely manner. The primary sources of credit risk for the syndicate are:

- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the syndicate; and
- investments – whereby issuer default results in the syndicate losing all or part of the value of a financial instrument and derivative financial instrument.

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

The managing agent limits exposure to a single counterparty or a group of counterparties and analyse the geographical locations of exposures when assessing credit risk.

An approval system also exists for all new brokers, and broker performance is carefully monitored by the managing agent. Regular exception reports highlight trading with non-approved brokers, and the managing agent's credit control function frequently assesses the ageing and collectability of debtor balances. Any large, aged items are prioritised and where collection is outsourced, incentives are in place to support these priorities.

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	CC to D

The following tables summarise the syndicate's concentrations of credit risk

	Tier 1	Tier 2	Tier 3	Tier 4	Unrated	Total
31 December 2022	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value						
- fixed and floating rate debt securities	688.4	-	-	-	401.0	1,089.4
Cash at bank and in hand	6,897.0	-	-	-	-	6,897.0
<b>Total</b>	<b>7,585.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>401.0</b>	<b>7,986.4</b>

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets.

Financial investments falling within the unrated category comprise hedge funds and illiquid credit assets for which there is no readily available market data to allow classification within the respective tiers. Additionally, some debtors are classified as unrated in accordance with Lloyd's guidelines.

### 2.4 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. In the majority of the cases, these claims are settled from the premiums received.

The syndicate'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 syndicate 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.

# Notes to the syndicate annual accounts continued

## 2. Risk management continued

The following is an analysis shows the estimated timing of the net cash flows based on the net claims liabilities balance held at 31 December of each year:

<b>Net insurance liabilities</b>	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
31 December 2022	1,158	1,843	987	568	4,556

The following table summarises the carrying amount at reporting date of financial instruments analysed by maturity date.

Maturity	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	>10 yrs	Total
31 December 2022	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Fixed and floating rate debt securities	1,089.4						–	1,089.4
Syndicate loan to Lloyd's central fund	–						–	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Cash at bank and in hand	6,897.0	–	–	–	–	–	–	6,897.0
Other debtors	53.0	–	–	–	–	–	–	53.0
Other creditors	(2,279.9)	–	–	–	–	–	–	(2,279.9)
<b>Total</b>	<b>5,759.5</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5,759.5</b>

## 2.5 Capital management

### Capital framework at Lloyd's

The Society of Lloyd's is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, license and ratings objectives. Although, as described below, the Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at an overall and member level respectively, not at a syndicate level. Accordingly the capital requirement in respect of syndicate 4321 is not disclosed in these financial statements.

### Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR to ultimate). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate comprises one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR to ultimate. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic

Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, license and ratings objectives. The capital uplift applied for 2022 was 35% of the member's SCR to ultimate.

### Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a syndicate (funds in syndicate) and/or as the member's share of the solvency II members' balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 14, represent resources available to meet members' and Lloyd's capital requirements.

### 3 Analysis of underwriting result

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

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Underwriting result
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2022</b>					
<b>Direct Insurance</b>					
Third party liability	6,478.4	2,251.1	(2,168.7)	(1,856.6)	(1,774.2)
Fire and other damage to property	2,675.0	1,280.9	(1,940.9)	(685.2)	(1,345.2)
Marine, aviation and transport	339.6	198.6	(138.6)	(648.4)	(588.4)
<b>Total</b>	<b>9,493.0</b>	<b>3,730.6</b>	<b>(4,248.2)</b>	<b>(3,190.2)</b>	<b>(3,707.8)</b>
<b>Reinsurance Accepted</b>					
Third party liability	997.8	1,091.3	(325.1)	(155.8)	610.4
Marine, aviation and transport	49.8	45.9	(21.9)	(101.8)	(77.8)
<b>Total</b>	<b>1,047.6</b>	<b>1,137.2</b>	<b>(347.0)</b>	<b>(257.6)</b>	<b>532.6</b>
<b>Total Direct and Reinsurance accepted</b>	<b>10,540.6</b>	<b>4,867.8</b>	<b>(4,595.2)</b>	<b>(3,447.8)</b>	<b>(3,175.2)</b>

All business was concluded in the UK.

### 4 Net operating expenses

	2022 \$'000
Acquisition costs <sup>1</sup>	1,452.7
Change in deferred acquisition costs	(644.9)
Administrative expenses	2,640.0
	<b>3,447.8</b>

1. Brokerage and commissions on direct business written was \$87.6k.

Administrative expenses include:

	2022 \$'000
Auditor's remuneration:	
Fees payable to the syndicate's auditor for the audit of these annual accounts	117.4
Fees payable to the syndicate's auditor and its associates in respect of:	
Other services pursuant to legislation	76.9
	<b>194.3</b>

Fees payable to the syndicate's auditor in relation to other services pursuant to legislation primarily relate to the review and audit of Syndicate regulatory returns.

# Notes to the syndicate annual accounts continued

## 5 Staff costs

The Syndicate and its managing agent have no employees. All UK staff are employed by Beazley Management Limited, with the majority of these costs incurred in sterling. The following amounts were recharged to the syndicate in respect of staff costs:

	2022 \$'000
Wages and salaries	704.4
Short-term incentive payments	286.5
Social security costs	184.0
Pension costs	151.6
	<b>1,326.5</b>

## 6 Emoluments of the Directors of Beazley Furlonge Limited

The Directors of Beazley Furlonge Limited, excluding the active underwriter, received the following aggregate remuneration charged to syndicate 4321 and included within net operating expenses:

	2022 \$'000
Emoluments and fees	46.2
Contributions to defined contribution pension schemes	1.7
	<b>47.9</b>

## 7 Active underwriter's emoluments

The aggregate amount of remuneration paid to and for the benefit of the active underwriter which was recharged to syndicate 4321 was \$31,181.

## 8 Net investment return

	2022 \$'000
Investment return on financial investments at fair value through profit or loss	(0.4)
Interest on cash and cash equivalents	4.7
<b>Net investment return</b>	<b>4.3</b>

## 9 Financial assets and liabilities

	Market value 2022 \$'000	Cost 2022 \$'000
Financial assets at fair value		
Fixed and floating rate debt securities:		
Government issued	313.4	126.4
<b>Corporate bonds</b>		
- Investment grade	776.0	35.3
Total debt securities and syndicate loans to Lloyd's central fund	<b>1,089.4</b>	<b>161.7</b>
<b>Total financial investments at fair value through profit or loss</b>	<b>1,089.4</b>	<b>161.7</b>
<b>Total financial assets at fair value</b>	<b>1,089.4</b>	<b>161.7</b>
Financial liabilities		
Derivative financial instruments	-	-

### Valuation hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described as follows, based on the lowest level input that is significant to the fair value measurement as a whole. If the inputs used to measure the fair value of an asset or a liability could be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

## 9 Financial assets and liabilities

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.

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, directly or indirectly (e.g. interest rates, exchange rates). Level 2 inputs include:

- Quoted prices similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads); and
- Market corroborated inputs.

Level 3 – Valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value. The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on non-active markets, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 2. The syndicate uses prices and inputs that are current as of the measurement date for valuation of these instruments.

### Valuation approach

The table below shows the fair values of financial instruments at 31 December 2022 and 31 December 2021, including their levels in the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
2022	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value				
Fixed and floating rate debt securities:				
- Government issued	313.4	-	-	313.4
- <b>Corporate bonds</b>				
- Investment grade credit	776.0	-	-	776.0
<b>Total financial assets at fair value</b>	<b>1,089.4</b>	<b>-</b>	<b>-</b>	<b>1,089.4</b>

1. The investment portfolio above contains \$688.4k of short term deposits separately disclosed in the cash and cash equivalents note (note 12).

The above qualitative and quantitative disclosure along with the risk management discussions in note 2 enables more accurate evaluation of syndicate's exposure to risk arising from financial instruments.

## 10 Deferred acquisition costs

	2022
	\$'000
At 1 January	-
Change in deferred commission	576.6
Change in other deferred costs	68.3
Exchange adjustments	(3.1)
<b>Balance at 31 December</b>	<b>641.8</b>

# Notes to the syndicate annual accounts continued

## 11 Other debtors

	2022 \$'000
Amounts due from members	10.3
Sundry debtors including taxation	42.7
	<b>53.0</b>

These balances are due within one year.

## 12 Cash and cash equivalents

	2022 \$'000
Cash at bank and in hand	6,897.0
Short term deposits	688.4
<b>Total cash and cash equivalents</b>	<b>7,585.4</b>

## 13 Technical Provisions

	Provision for unearned premium \$'000	Claims outstanding \$'000
<b>Gross technical provisions</b>		
<b>As at 1 January 2022</b>	–	–
Movement in the provision	5,672.8	4,579.4
Exchange adjustments	(37.7)	(23.0)
<b>As at 31 December 2022</b>	<b>5,635.1</b>	<b>4,556.4</b>

### Gross claims development

	2022
12 months (%)	66.0
Total ultimate losses (\$'000)	14,618.4
Less paid claims (\$'000)	(15.8)
Less unearned portion of ultimate losses (\$'000)	(10,046.2)
<b>Gross claims liabilities (\$'000)</b>	<b>4,556.4</b>

## 14 Creditors

	2022 \$'000
Creditors arising out of direct insurance operations	0.8
<b>Other Creditors</b>	
Amounts due to group undertakings	2,279.9
<b>Total Creditors</b>	<b>2,280.7</b>

The above other creditors balances are payable within one year.

## 15 Subsequent events

There have been no balance sheet events which have occurred between the reporting date and the date which the financial statements have been signed, for which an adjustment and or disclosure is required.

## 16 Related party transactions

Beazley Furlonge Limited as the managing agent of the syndicate is responsible for settling intercompany balances with other managed syndicates and net amounts due to/from other related parties.

The intercompany positions with entities owned by Beazley plc at 31 December 2022 are shown in the table below:

	2022 \$'000
Beazley Furlonge Ltd	(2,272.0)

## 17 Foreign exchange rates

The syndicate used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into US dollars, being the syndicate's presentational currency:

	2022	
	Average	Year end spot
Sterling	0.80	0.82
Canadian dollars	1.29	1.37
Euro	0.94	0.95

# Managing agent corporate information

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Beazley Furlonge Limited has been the managing agent of syndicate 4321 throughout the period covered by this report.

## Directors

G P Blunden<sup>1</sup> – Interim Chair  
A P Cox – Chief Executive Officer  
R E Quane (appointed 21/12/2022)  
C C R Bannister<sup>1</sup>(appointed 08/02/2023)  
R S Anarfi  
I Fantozzi  
N H Furlonge<sup>1</sup>  
S M Lake  
C LaSala<sup>1</sup>  
A J Reizenstein<sup>1</sup>  
L Santori<sup>1</sup>  
R A Stuchbery<sup>1</sup>  
N Wall<sup>1</sup>  
K W Wilkins<sup>1</sup> (resigned 01/01/2022)  
D L Roberts<sup>1</sup> (resigned 21/10/2022)  
1 Non-Executive Director.

## Active Underwriter

W Roscoe

## Company secretary

C P Oldridge

## Auditor

Ernst & Young LLP  
25 Churchill Place  
London  
E14 5EY

## Banker

Deutsche Bank AG  
Winchester House  
London  
1 Great Winchester Street  
EC2N 2DB

## Managing agent's registered office

22 Bishopsgate  
London  
EC2N 4BQ  
United Kingdom

## Registered number

01893407









**Beazley Furlonge Limited**

Syndicate 4321 at Lloyd's  
22 Bishopsgate  
London  
EC2N 4BQ

T +44 (0)20 7667 0623

info@beazley.com  
www.beazley.com

Syndicate 4321  
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**[investor.relations.beazley.com](https://investor.relations.beazley.com)**

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