HISCOX

Hiscox Ltd trading statement

Hamilton, Bermuda (2 November 2020) – Hiscox Ltd (LSE:HSX), the international specialist insurer, today issues its trading statement for the first nine months of the year to 30 September 2020.

Gross written premiums grew by 2% in constant currency to $3,262.4 million (2019: $3,212.6 million), driven by rate improvement and growth in customer numbers across the business. In the third quarter, premiums grew by 15% in constant currency.

Highlights:

- Hiscox Retail reported growth in each of its five business units driven by its digital platforms.
- Hiscox London Market continued to benefit from accelerating rate improvement, with rates up 18% across the portfolio.
- Hiscox Re & ILS achieved good growth at the July renewals, with rates up 12% for the year.
- $75 million reserved for catastrophe claims in the third quarter.
- No change to previously-disclosed estimates for claims related to COVID-19.

Bronek Masojada, Chief Executive Officer, commented: "I am proud of the way Hiscox employees have continued to support our customers in very challenging circumstances. Our year-to-date performance demonstrates the resilience of the Group, as we delivered good growth in every target area, including in all of our Retail businesses.

"We are benefiting from the inexorable shift towards digital in our Retail businesses thanks to our on-going investment in technology, as well as the strongest pricing we have seen in the London Market and in reinsurance for more than five years. We have the financial strength, operational resilience and underwriting expertise to take advantage of these favourable market trends."

Gross Written Premiums for the period:

	Gross Written Premiums to 30 September 2020	Gross Written Premiums to 30 September 2019	Growth in USD	Growth in constant currency
	US$m	US$m	%	%
Hiscox Retail	**1,725.9**	1,666.7	4%	4%
Hiscox London Market	**772.9**	722.3	7%	7%
Hiscox Re & ILS	**763.6**	823.6	(7)%	(7)%
Total	**3,262.4**	**3,212.6**	**2%**	**2%**

Rates

Pricing momentum for Hiscox London Market has accelerated further in the third quarter, with aggregate rates up 18% year-to-date. Rates are up in almost every line, most notably in US public company directors and officers' (D&O), US general liability, cargo, hull and major property. The improving rate environment within Lloyd's continues to be driven by factors impacting both supply and demand, as carriers' discipline increases and clients' appetite for retaining risk shrinks in the face of on-going economic uncertainty.

In reinsurance, where we made the decision to retrench in January in response to underwhelming pricing, the market continues to harden significantly. Hiscox Re & ILS achieved strong rate increases at the year's final major renewal in July, resulting in a total year-to-date portfolio-wide rate increase of 12%, including 20% in retrocession. While still not a universally hard market, rate improvement continues to be driven by capital contraction and discipline encouraged by an ultra-low interest rate environment, which is expected to continue at the January renewals and beyond.

In Hiscox Retail, rates are up 7% in our US excess and surplus lines portfolio, with terms and conditions tightening across the board. In the UK and Europe, pricing remains stable.

Claims

While the severity of individual catastrophe events has not reached the levels of the preceding three years, the third quarter has seen a high frequency of natural catastrophes, with the most active North American wind season on record and another significant wildfire season in California.

Hiscox has reserved $75 million net for catastrophe claims in the third quarter. This includes claims from Hurricane Laura based on an insured market loss of $8 billion, as well as claims under aggregate reinsurance policies, provisions for wildfire claims and some large individual risk losses.

The overall claims experience for Hiscox London Market has been in line with expectations, despite the active wind season and some large market losses earlier in the year.

Excluding the impact of COVID-19, claims for Hiscox Re & ILS were as expected, with the exception of exited lines, where the Group strengthened reserves for healthcare and casualty.

Setting aside the impact of COVID-19, Hiscox Retail has had a normal claims experience, with the exception of Hiscox Europe which had a relatively benign third quarter until September, when a number of large fine art claims and a large cyber loss were reported.

Claims management action in Hiscox USA continues to deliver the expected benefits and the significant majority of lines are performing well. In general liability, the small business package product sold through direct and partnerships continues to perform strongly. Larger-ticket standalone general liability sold through the broker channel has experienced some adverse claims trends in line with the market, which the business is taking action to address. In cyber, there has been a market-wide uptick in ransomware claims severity and frequency, which is providing further impetus for necessary rate increases and tighter terms and conditions.

COVID-19 claims and potential exposure

There is no change to the Group's previously-disclosed estimates for claims related to COVID-19, which total $387 million net of reinsurance. This includes $232 million reserved in the first half, including $150 million for event cancellation and abandonment, with the balance across a variety of other lines. It also includes $130 million (£100 million) for COVID-19 claims arising from business interruption across all divisions, with the majority coming from Hiscox UK, and $25 million for event cancellation and abandonment, on the basis that current restrictions on travel and mass gatherings continue until the end of the year.

If these restrictions continue into 2021, Hiscox has an additional $30 million to $40 million potential exposure relating to event cancellation. This would be recognised in 2021 if events are unable to proceed.

Hiscox's exposure to potential business interruption claims arising from further local or national restrictions in the UK as a result of government measures to contain the spread of COVID-19 has been running off at approximately 8% per month from June 2020, with residual exposure to be fully run off by the end of June 2021. Any further claims for business interruption resulting from government restrictions imposed in 2020 would continue to benefit from reinsurance cover. Any potential exposure remains subject to the final outcome of the Industry Test Case on business interruption insurance.

Hiscox recognises these are extremely difficult times for businesses and is committed to seeking an expedited resolution to contract disputes relating to business interruption through the Industry Test Case. Following the Order made by the High Court on 2 October giving effect to its Judgment of 15 September, Hiscox is continuing discussions with the Financial Conduct Authority (FCA), action groups and other insurers to resolve any outstanding issues. In parallel with this, the FCA, a customer action group and the six defendant insurers have applied for permission to appeal to the Supreme Court. In line with the Framework Agreement governing the Industry Test Case this 'leapfrog' appeal is the fastest way to get legal clarity for all parties.

Investments

The investment return for the first nine months of 2020 was $130 million (2019: $186 million), or 2.5% on an annualised basis (2019: 4.0%). Assets under management at 30 September 2020 were $7,641 million (2019: $6,444 million).

As economic lockdowns eased globally during the third quarter, economies and markets began to recover. However, the recovery slowed as the impact of policy stimulus faded and infection rates moved higher around the world towards the quarter-end. While uncertainty remains around the economic impact of policy responses to the on-going pandemic, the US election and the end of the Brexit transition period, so far the pullback has been moderate, with markets largely looking through the immediate issues.

Corporate bond spreads have continued to tighten, but remain above pre-pandemic levels. Given the high quality of corporate bonds held in its portfolios and continued support from central banks, Hiscox is comfortable maintaining its current credit exposures. While equity markets have rebounded, performance between markets, sectors and companies is divergent. The Group remains opportunistic in its approach to equities and underweight in its exposure to risk assets.

While the year to date investment return is now ahead of the original forecast for 2020, the decline in government bond yields combined with credit spreads for high quality bonds being at more moderate levels, has significantly reduced the portfolio's forward-looking yield. The current yield to maturity on the bond portfolio is the lowest ever at just 0.6%, and more modest investment returns should be expected for 2021.

Hiscox Retail

Hiscox Retail delivered a strong performance, growing gross written premiums by 4% in constant currency to $1,725.9 million (2019: $1,666.7 million) as government restrictions eased and economic activity increased in the third quarter.

Direct and partnerships across the Group, which has a focus on small businesses, has grown by 15% through nine months and is expected to reach $500 million in gross written premium and over 800,000 customers by the year-end. The strong growth continues to be driven by the Group's investment in developing its digital capabilities, including new policy administration systems for Hiscox UK, Hiscox USA and Hiscox Europe. As these new systems embed, they will enable improvements in pricing and risk selection, increased operational efficiency, and a better front-end customer experience.

Hiscox Retail remains on track to hit its 90-95% combined ratio target in 2022, driven by the benefits of portfolio optimisation, operational efficiencies and scale.

Gross Written Premiums for the period:

	Gross Written Premiums to 30 September 2020		Gross Written Premiums to 30 September 2019		Growth in USD	Growth in constant currency
	£m/€m	**US$m**	£m/€m	US$m	%	%
Hiscox Retail						
- Hiscox UK	**£443.6**	**$565.2**	£440.3	$560.7	1%	1%
- Hiscox Europe	**€315.7**	**$353.7**	€290.3	$326.2	8%	9%
- Hiscox Special Risks		**$98.3**		$96.2	2%	2%
- Hiscox USA		**$672.9**		$647.2	4%	4%
- Hiscox Asia*		**$35.8**		$28.2	27%	25%
Hiscox Retail total		**$1,725.9**		**$1,666.7**	**4%**	**4%**

*2019 gross written premiums for Hiscox Asia include the recognition of premium controlled by DirectAsia Thailand which is written via an agency relationship into Hiscox Insurance Company (Bermuda). The table above presents Hiscox Asia on a normalised basis for management purposes.

Hiscox UK

Hiscox UK reported premium growth of 1% in constant currency to $565.2 million (2019: $560.7 million), with the business also growing its net customers during the period. Growth for the third quarter was 6% in constant currency.

The broker channel delivered a good performance, growing despite an on-going premium reduction from a number of key sectors including hospitality, entertainment and events, which are still being impacted by the general measures taken in response to the pandemic.

High customer retention in the core broker specialty commercial business largely offset a decline in new business through July and August as a result of reduced economic activity, with new business beginning to pick up in the month of September.

Direct and partnerships was boosted by a strong recovery in direct commercial in September, which was the strongest month for new business so far in 2020.

Hiscox Europe

Hiscox Europe continued its strong performance this year, growing gross written premiums by 9% in constant currency to $353.7 million (2019: $326.2 million), led by strong double-digit growth in Germany and Benelux.

The varied economic recoveries exhibited by individual European nations continue to impact the performance of each of the European businesses differently.

While Germany and Benelux delivered strong growth of 15% and 12% respectively, in France and Spain, which have both been significantly impacted by their respective government restrictions, growth was more muted. Ireland delivered encouraging growth through three quarters.

Hiscox USA

Hiscox USA grew its gross written premiums by 4% to $672.9 million (2019: $647.2 million) on the back of strong growth in its digital small commercial business. This good growth was achieved despite challenging economic conditions and action being taken in the broker channel to increase the focus on the small business segment.

Direct and partnerships grew by 23%, including 26% in the third quarter. The channel is benefiting from a continued rebound in the US economy and an increased demand for digital solutions which has been accelerated by the pandemic. By the year-end, the digital platform is expected to account for approximately $330 million of gross written premium and over 450,000 customers. The implementation of a new digital technology platform, key to delivering long-term efficiency and scale benefits, remains on track.

The broker channel bounced back strongly in September, its best month for new business since February. This is a particularly significant achievement, given the effect of on-going action to improve profitability in lines including general liability, financial services, entertainment and cyber. In allied healthcare, action has been taken to mitigate the potential impact of third-party liability claims related to COVID-19. These headwinds were offset by excellent growth in profitable products such as crime, terrorism, and architects & engineers professional liability, as well as hardening rates across the market. There is still more work to be done, as the team takes advantage of improved pricing to improve the profitability of the core small business portfolio.

Hiscox USA will continue to build on its success in small business, where it has achieved long-term profitable growth with its omni-channel approach. In line with this objective, the Group expects on-going investment in digital connectivity, consumer and partner marketing, operational efficiency and underwriting excellence, to ensure that it continues to capture a meaningful share of the opportunity in the US.

Hiscox Special Risks

Gross written premiums for Hiscox Special Risks are up by 2% in constant currency to $98.3 million (2019: $96.2 million), with the business remaining resilient in the face of an uncertain global security landscape.

With kidnap and ransom increasingly purchased as part of a broader suite of crisis management products, Hiscox is moving to a geographic distribution-led approach in order to more effectively serve clients and brokers. This change will take place in the fourth quarter and complete in 2021, after which Hiscox Special Risks will no longer exist as a standalone business unit.

Under the new structure, locally-written kidnap and ransom business in the US and Europe will be written through the respective Retail businesses, while a newly-created Crisis Management division within Hiscox London Market will handle business written in Guernsey, Miami and London. All business units will continue to work closely with long-time partner and market-leading response firm Control Risks. The new structure will be reflected in the Group’s financial reporting in 2021.

Hiscox Asia

Hiscox Asia grew gross written premiums by 25% in constant currency to $35.8 million (2019: $28.2 million).

Thailand continued its strong momentum in direct and partnerships, despite the impact of COVID-19.

In Singapore, government restrictions on travel and increased competition in motor have impacted new business, however strong renewals continue to drive growth.

Hiscox London Market

Gross written premiums in our London Market business grew by 7% in constant currency to $772.9 million (2019: $722.3 million) as strong rate momentum continues to fuel growth. The division grew by 11% in constant currency in the third quarter.

Conditions in Lloyd's continue to improve in every line of business Hiscox writes, with double-digit rate improvement reported in nine of 17 lines. The most significant rate improvement continues to be seen in casualty lines such as US public company D&O and US general liability, where markets continue to retreat, creating further opportunities for profitable growth.

At the same time, the underwriting teams are taking action to reduce exposure and remediate underperforming portfolios. The benefit of portfolio action to improve profitability in the property book is beginning to show through, with lower attritional losses in commercial lines now evident.

The business is well capitalised and has sufficient headroom to execute its business plan next year and grow in lines where margins are attractive.

Hiscox Re & ILS

In Hiscox Re & ILS, gross written premiums decreased by 7% in constant currency to $763.6 million (2019: $823.6 million), although this is flattered by reinstatement premiums following losses this year. Excluding the impact of reinstatements, premiums are down by 12%.

Underwriting discipline and portfolio action, including exiting casualty reinsurance, alongside reduced third-party capital deployed earlier in the year, continues to impact the top line. This is despite good growth at the July renewals driven by strong rate improvement.

With the reinsurance account largely written for 2020, attention turns to the looming January renewals, where the expectation remains for capital contraction to continue to drive material rate hardening.

Headline premiums for Hiscox Re & ILS in 2021 will be driven by the deployment of some of the proceeds from the Group's equity raise earlier in the year, as well as the level of third-party capital support available from quota share partners and the Hiscox ILS funds. Total ILS assets under management are currently at $1.5 billion, although deployable capital is closer to $1 billion. Hiscox expects 2021 net written premium growth to exceed growth in gross written premiums.

In October, the Group announced that Kathleen Reardon has been appointed as CEO of Hiscox Re & ILS, subject to regulatory approval. Kathleen, who is based in Bermuda, joins from Hamilton Re where she was CEO for the past six years.

Dividend and capital management

The Group remains committed to prudent capital management in the face of on-going economic uncertainty.

Having delivered a resilient financial and operational performance in the second half so far, the Group remains well capitalised on both a regulatory and ratings basis, with ample liquidity to pay claims and execute its growth plans in improving market conditions.

The Board remains committed to return to paying a dividend and will re-evaluate the position at the year-end.

ENDS

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Notes to editors

About The Hiscox Group

Hiscox is a global specialist insurer, headquartered in Bermuda and listed on the London Stock Exchange (LSE:HSX). Our ambition is to be a respected specialist insurer with a diverse portfolio by product and geography. We believe that building balance between catastrophe-exposed business and less volatile local specialty business gives us opportunities for profitable growth throughout the insurance cycle.

The Hiscox Group employs over 3,400 people in 14 countries, and has customers worldwide. Through the retail businesses in the UK, Europe, Asia and the USA, we offer a range of specialist insurance for professionals and business customers as well as homeowners. Internationally traded, bigger ticket business and reinsurance is underwritten through Hiscox London Market and Hiscox Re & ILS.

Our values define our business, with a focus on people, courage, ownership and integrity. We pride ourselves on being true to our word and our award-winning claims service is testament to that. For more information, visit www.hiscoxgroup.com.

Hiscox response to COVID-19

Hiscox is committed to supporting the international response to this pandemic. The Group is supporting employees around the world with flexible and remote working as well as socially distanced office working and the provision of mental health and wellbeing services. Wherever possible operations have been re-organised to deploy more employees to provide customer support. The Group has committed to stand by existing employees by retaining all current roles during 2020 on full pay. Hiscox has not furloughed any staff and has not accessed any UK Government support schemes.

Hiscox is working with the rest of the insurance industry, including the Association of British Insurers, to identify where it can direct financial support that will have the most impact. Through the Hiscox Foundation, the Group is also supporting vulnerable groups via donations to established charities such as the Trussell Trust and Age UK and around the world we are donating to food banks, the Red Cross and Personal Protective Equipment (PPE) funds.