# Environmental, social and governance (ESG)

"The challenges of ESG are not easy to solve, which is why I like the pragmatic approach that Hiscox is taking to address them. That means operating responsibly, but also working with others to drive meaningful progress."

Jon Dye
Chief Executive Officer, Hiscox UK and Sustainability Steering Committee member

**Our approach to environmental, social and governance standards (ESG) is shaped by a clearly stated ambition: to be here for the long term, for our customers, colleagues and communities, operating in a sustainable way for the future.**

We take our role in the world seriously and want to play a responsible part in society, but we are pragmatic about what that looks like. The language of ESG is rapidly evolving, but the issues it encompasses are not new, and in many cases our responses to them are already embedded in our business. For example, having a deep understanding of climate change through catastrophe modelling and research is a fundamental part of our business and an area where we want to be market leading. In other areas, progress comes through regulation or public interest, but we also see future opportunities to innovate and serve our customers.

To achieve our ambition, we focus on making positive and persistent improvements to our approach across ESG. For example, during 2022, we established an ESG data provider within our London Market business, which over time will support underwriting decisions in big-ticket lines and help us factor ESG into our future exposures. We also saw a 28% decrease in our operational greenhouse gas (GHG) emissions in 2022 against our 2020 baseline year, and realised the fifth year of incremental improvement in closing our UK gender pay gap, which is now at 16.0% on a mean basis.

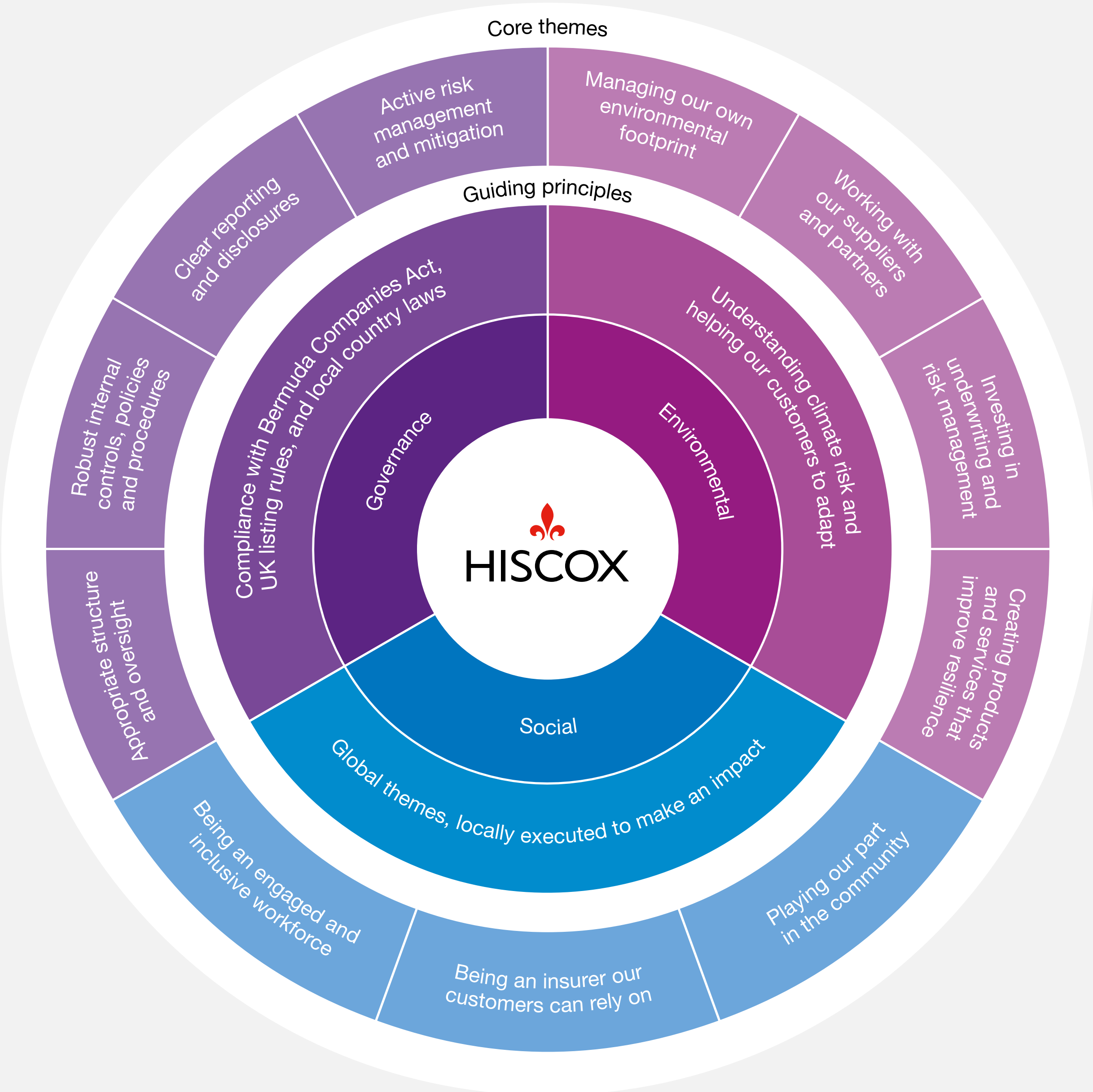
Our progress over the past year was reflected in our MSCI ESG rating, which was upgraded from A to AA, and in our CDP score, which improved from a B- in 2021 to a B in 2022.

We will continue to build on this progress during 2023, through a combination of one-off programmes of work and ongoing engagement on key issues. This will include:

- publishing a low-carbon transition plan in line with UK regulatory requirements;
- further defining the Group's ESG risks and opportunities through ESG materiality mapping;
- continued industry collaboration on issues including the measuring of underwritten emissions.

## Hiscox ESG framework

ESG issues touch many different parts of our business and the Hiscox ESG framework helps us stay focused and make an impact. It ensures we are pragmatic and consistent, teaming Group-wide themes with local market relevance. We also evolve as regulation changes and public interest in emerging issues grows.



## Environmental

**We carefully manage our environmental impact and work with our customers, suppliers and business partners to respond to the changing climate.**

This includes finding ways to limit our own consumption of materials such as energy and water and reducing the amount of waste we generate. It also means investing in areas such as research, catastrophe modelling and new technologies that improve our underwriting capabilities and ensure we are well placed to help our customers when it comes to managing the risks they face.

### ESG exclusions policy

Our ESG exclusions policy officially came into force at the start of 2022 and is an important pillar of our environmental ambitions. This policy sets out our ambition to reduce steadily and eliminate by 2030 our insurance, reinsurance and investment exposure to coal-fired power plants and coal mines; Arctic energy exploration, beginning in the ANWR region; oil sands; and controversial weapons such as landmines.

Since then we've made solid progress across underwriting, reinsurance and investments:

- in big-ticket underwriting, we now monitor all risks according to their ESG profile and continue to decline and non-renew risks in line with our exclusions policy. Through this same tracking, we are able to monitor the positive risks we are supporting such as wind and solar energy, and electric vehicles;
- in reinsurance, we have exited from all business where 30% or more of subject premium derived from restricted areas, and we continue to monitor our portfolio composition against our ESG focus areas, capturing programs declined for ESG reasons in regular internal reporting;
- in investments, we have shared the policy with our fund managers, to ensure it is considered in relation to pooled funds, and we have eliminated our investment exposure within all directly-held bonds that fall outside of appetite. In addition, we have now fully embedded ESG into our investment processes: net-zero wording is now in all core bond investment manager mandates; we have enhanced the ESG credentials of our emerging market bond portfolio; and an investments-focused ESG dashboard is now a regular feature of Investment Committee reporting. Our sustainable assets including green/ESG bonds are now over $300 million, with over 5% of our bond portfolio in green or ESG-labelled bonds.

### GHG reduction targets

Central to our efforts to manage our environmental impact is an ambitious set of targets for the reduction of GHG emissions. We announced our new Group-wide GHG targets with our 2021 full-year results, and during 2022 we have focused on embedding them. These targets, which were developed using SBTi methodologies and designed to align with a 1.5°C net-zero world by 2050, are:

- reduce our Scope 1 and 2 emissions by 50% by 2030, against a 2020 adjusted baseline*;
- reduce our operational Scope 3† emissions by 25% per full-time equivalent (FTE) by 2030, against a 2020-adjusted baseline*;
- transition our investment portfolios to net-zero GHG emissions by 2050. The aim is that more than 25% of our corporate bond portfolio by invested value will have net-zero or Paris-aligned targets by 2025, and more than 50% by 2030;
- engage with our suppliers, brokers and reinsurers on our net-zero targets and on their plans to adopt Paris-aligned climate targets;
- monitor emerging standards around underwritten emissions and collaborate across our industry on their development, aligning with best practice in this area as it emerges.

In 2022, we took some important first steps in response to these targets:

- we completed a half-year footprint in order to provide a mid-point for assessing emissions and further enhance our data collection processes;
- we conducted a deep-dive on renewable electricity usage across the Group, and identified key sites to focus on for continued adoption of renewable electricity in support of our Scope 1 and 2 target;
- we made good progress towards the first of our interim targets for transitioning our investment portfolio, with approximately 20% of our corporate bond portfolio having net-zero/Paris-aligned targets as at year-end.

We will build on this further with the development of a low-carbon transition plan for the Group, in line with UK regulatory requirements.

*Baseline year adjusted in light of Covid-19-related lockdown measures,to reflect a more normal year in terms of business travel etc.

†Operational Scope 3 emissions predominantly consist of purchased goods and services and capital goods, and business travel (air, rail and car travel).

## Water and waste

| | 2022 | 2021 | Year-on-year change |
|---|---|---|---|
| Water usage | 10 | 20 | -50% |
| Waste generated | 49 | 34 | 44% |

## GHG emissions*

| Scope | 2022 ($tCO_2e$) | 2021 ($tCO_2e$) | 2020 ($tCO_2e$) | 2022 vs. 2020 baseline |
|---|---|---|---|---|
| Scope 1 | 786 | 678 | 615 | 28% |
| Scope 2 (market-based) | 927 | 866 | 1,111 | -17% |
| Total Scope 1 and 2 | 1,713 | 1,544 | 1,726 | -0.8% |
| Scope 3 (operational) | 19,298 | 17,116 | 27,461 | -30% |
| Scope 3 (operational) per FTE | 5.83 | 5.80 | 8.91 | -35% |
| Total operational footprint | 21,011 | 18,660 | 29,187 | -28% |
| Scope 3 (non-operational) | 9,862 | 8,458 | 7,046 | 40% |
| Investments | 127,497 | 125,156 | 135,275 | -6% |

Our Scope 1-3 emissions excluding investments are independently verified to a reasonable assurance level, with investment emissions verified to a limited assurance level. A copy of the verification statement can be found at **hiscoxgroup.com/responsibility/environment**.

## Environmentally-focused commitments

ClimateWise

Paris Agreement 2015

Principles for Responsible Investment (PRI)

Principles for Sustainable Insurance (PSI)

Sustainable Markets Initiative

Task Force on Climate-related Financial Disclosures (TCFD)

## Total GHG emissions inventory

We continue to focus on managing and minimising our carbon footprint as a Group. While we saw a 28% decrease in our operational GHG emissions in 2022 against our 2020 baseline year, our total operational footprint increased by 13% in 2022 when compared to 2021.

While some of this increase relates to emissions arising from one-off capital goods spend – such as those generated as a result of our London office move – there are other areas where we have seen an increase in emissions due to continued improvements in data accuracy as we continue to enhance our data collection processes.

We also saw an increase in upstream transport and distribution emissions, as we have this year started to account for transport emissions related to purchased goods and services and capital goods as part of our Scope 3 footprint.

Business travel emissions this year also reflect the expected rebound in travel-related emissions that we reported last year, as work patterns continue to normalise.

*GHG emissions are calculated according to the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition). Hiscox uses market-based Scope 2 emissions for reporting in line with its new GHG reduction target. Operational Scope 3 emissions cover operational suppliers (office and other related services), capital purchases, fuel and energy related activities, waste generated in operations, business travel, employee commuting and remote working. Non-operational emissions are those that do not directly contribute to the emissions associated with daily business activity, including non-operational purchased goods and services and transportation and distribution.

An assessment across all categories of Scope 3 emissions has taken place and the material categories are disclosed as part of our full GHG inventory (above). Note some emissions totals may not tally due to rounding.

The investment emissions are calculated using the Enterprise Value Including Cash (EVIC-based) method of attributing financed emissions to investors, and calculations use MSCI's carbon data[†] as the ultimate source. Our 2020 operational emissions baseline for business travel has been restated to project pre-Covid travel patterns.

A copy of our Streamlined Energy and Carbon Reporting (SECR) GHG emissions table can be found on page 63.

[†]Although Hiscox's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the 'ESG Parties'), obtain information (the 'information') from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Charitable giving and volunteering

Hiscox Foundation

Hiscox Gives

## Social

**In everything we do, we strive to be a good employer, a trusted insurer and a good corporate citizen.** Our social responsibilities help to inform our customer and claims philosophies, our strategy for charitable giving and our employment practices.

### Being a customer-centric business

Being an insurer our customers can rely on is part of our reason for being, and we continue to focus on providing easy-to-understand products that suit specific customer requirements. For example, in Hiscox London Market we enhanced our malicious attack offering with resilience training during the year; in Hiscox ILS we launched a special opportunities portfolio in response to market dynamics; and in the UK we are adapting to the FCA's new customer-focused Consumer Duty regulations.

Our approach is to consider not just the transfer of risk through insurance, but also how we can help our customers mitigate the risks they face. In cyber, we do this through the training and education we offer as part of the Hiscox Risk Academy, and in home insurance we do it through our partnership with LeakBot, an early leak detection system that we've provided to over 8,000 Hiscox UK insured homes to date. You can read more about our approach to risk transfer and risk mitigation on pages 18 to 19.

During the year we also reflected on the impact on our customers of the rising cost of living, leading to enhanced vulnerable customer training in the UK and the development of a cost of living dashboard through which to regularly monitor changing customer behaviours. The work we do with customers is recognised in our strong customer satisfaction scores for the year (see page 5).

### Supporting our communities

Supporting the communities in which we work has been part of our DNA for decades, and our charitable foundation, the Hiscox Foundation, dates back to 1987. We focus our charitable giving around three strategic pillars:

- social mobility and entrepreneurship;
- protecting and preserving the environment;
- causes our people are passionate about.

During 2022, we donated over $1.8 million to good causes and our people spent over 1,400 hours volunteering. This included targeted donations that recognise specific events such as the Russia/Ukraine conflict and the floods in Pakistan. During the year, in recognition of the rising cost of living and the increasing costs that charities are facing, we increased our donations to our UK multi-year partners in line with inflation for the 2022/23 financial year.

### Being a great place to work

Building an engaged and inclusive workforce was a strategic priority for us in 2022. We made great strides in reviewing our employee proposition and introduced new rewards for colleagues including our share ownership scheme, HSX:26. We also introduced 'Hiscox days' – an additional two days for employees to do whatever matters most to them. A new sabbatical policy came into force, which provides four weeks' paid leave for every five years of service. These changes were the result of a renewed focus on listening to what employees want, and most importantly responding to it. The impact is reflected in our 2022 employee engagement results – our best in ten years (see page 3).

We also continue to progress our diversity, equity and inclusion (DEI) efforts, as we strive to build teams that are as diverse as the customers we serve. We currently have 18 employee network chapters, including a new 'global abilities' network focused on disabilities and neurodiversity, which we introduced during 2022. More information on our approach to DEI can be found on page 95 to 97.

We have been an accredited Living Wage employer in the UK since 2019, but in 2022 we recognised the additional challenges of high inflation levels and an increased cost of living on our people. As a result, we made one-off cost of living lump sum payments of £1,500/$1,500/€1,500 to the lowest-earning portion of our workforce – benefitting 38% of our people.

## Governance

**As a global insurer, good governance practices are essential to our day-to-day business of serving customers and paying claims.** That means having appropriate internal controls, policies and procedures, and structures and oversight, but it also means ensuring all employees are accountable for their actions and empowered to raise their hand if something goes wrong. As a Bermuda-domiciled, UK-listed business, we comply with the Bermuda Companies Act, the UK listing rules and local country laws in each of the locations where we operate.

More information on our governance practices – including as they relate to ESG and climate-related issues – can be found in the risk management, TCFD and corporate governance sections of this report.

## Social commitments and partnerships

Black Insurance Industry Collective (BIIC)

SEO London

Insuring Women's Futures

UK Living Wage employer

## Gender/sex diversity at 31 December 2022

| | Number of Board members | Percentage of the Board | Number of senior positions on the Board (CEO, CFO, SID and Chair) | Number in Executive Management* | Percentage of Executive Management* | Percentage of Executive Management and direct reports† | Percentage of all employees |
|---|---|---|---|---|---|---|---|
| Men | 7 | 64% | 4 | 7 | 58% | 53% | 49% |
| Women | 4 | 36% | – | 5 | 42% | 47% | 50% |
| Not specified/prefer not to say | – | – | – | – | – | – | <1% |

## Ethnic diversity at 31 December 2022

| | Number of Board members | Percentage of the Board | Number of senior positions on the Board (CEO, CFO, SID and Chair) | Number in Executive Management* | Percentage of Executive Management* | Percentage of Executive Management and direct reports† | Percentage of all employees |
|---|---|---|---|---|---|---|---|
| White British or other white (including minority-white groups) | 10 | 91% | 3 | 9 | 82% | 83% | 74% |
| Mixed/multiple ethnic groups | – | – | – | – | – | 1% | 2% |
| Asian/Asian British | 1 | 9% | 1 | 2 | 18% | 4% | 9% |
| Black/African/Caribbean/black British | – | – | – | – | – | 6% | 7% |
| Other ethnic group, including Arab | – | – | – | – | – | – | 3% |
| Not specified/prefer not to say | – | – | – | – | – | 6% | 4% |

*For the purposes of the UK Listing Rules, Executive Management includes the Group Executive Committee (the most senior executive body below the Board) and the Company Secretary, excluding administrative and support staff.

†For the purposes of the UK Corporate Governance Code, senior management (which for consistency we refer to as Executive Management in the tables above) includes the Group Executive Committee and the Company Secretary and their direct reports, excluding administrative and support staff.

Our approach to gender/sex and ethnicity data collection and reporting is consistently applied in the countries where we collect this data, according to local law and custom. We use the Group's online HR management system, Workday, to collect and securely store this data.

In all countries, employees can choose to self-report their gender/sex or specify that they 'prefer not to disclose'.

In the countries where we collect ethnicity data (currently UK, Bermuda, USA and Guernsey), employees can choose to self-report their ethnicity, specify that they 'prefer not to disclose', or not provide an answer at all (leave blank).

The self-reported ethnicity options provided in each country are aligned to the options provided in that country's government census, and have been collated corresponding to the UK Listing Rules' prescribed categories. Any ethnicities reflected in a country's census that do not align with one of the prescribed categories in the table were included in the 'other ethnic group' row data.

The data reported here includes the self-reported data provided by our employees in the countries where we collect the data. For any data categories where an employee has not provided a response, these employees are counted in the 'not specified/prefer not to say' row. We do this so that, to the best of our abilities, all employees in the countries where we collect the data are accounted for.

The data does not include employees in countries where we do not collect the data.

Note: some totals may not tally due to rounding.