

Key risks*

The risk

As an insurance group, specific risks related to our business include:



Strategic risk

The possibility of adverse outcomes resulting from ineffective business plans and strategies, decision-making, resource allocation or adaptation to changes in the business environment. The Group's continuing success depends on how well we understand our clients, markets and the various internal and external factors affecting our business, and having a strategy in place to address risks and opportunities arising out of this. Not having the right strategy could have a detrimental impact on profitability, capital position, market share and reputation.



Underwriting risk

The risk that insurance premiums prove insufficient to cover future insurance claims and associated expenses. Likely causes include failing to price policies adequately for the risk exposed, making poor risk selection decisions, allowing insurance exposures to accumulate to an unacceptable level, or accepting underwriting risks outside of agreed underwriting parameters. This includes people, process and system risks directly related to underwriting, and considers emerging external risks such as climate, geopolitical and changing customer trends.

Risk landscape and how we manage the risk

We consider strategic risks in a holistic way, to better prepare our business for emerging threats, shifting trends, and opportunities in the environment in which we operate. During 2022, we have remained vigilant to potential adverse impacts of economic, geopolitical, social, technological and regulatory developments on our Group strategy. Our Group strategy was refreshed during 2022 under new Group Chief Executive Officer Aki Hussain, with a clarity of focus on consistent delivery from our big-ticket businesses, accelerated growth in Retail digital and balanced growth in Retail traded, and has been communicated across the business throughout the year.

The external environment remains complex, uncertain and changeable but our robust strategy means that despite the external headwinds there remains tremendous opportunity for Hiscox in each of our chosen segments.

We continue to improve the quality and balance of our portfolios, strengthening our pricing and risk selections, and growing where the opportunities are commensurate with the risk.

In 2022, we navigated a set of complex external conditions which amplified underwriting risks. These ranged from geopolitical tensions (notably, the Russia/Ukraine conflict), macroeconomic shifts (particularly increased inflationary pressures in most Western economies), emerging societal trends (such as increased propensity to litigation), and the continued potential impact of climate change. Our active monitoring and enhanced view of economic and social inflation, impact from supply chain disruptions, heightened threat of cyber attacks, and emerging litigation trends, allowed Hiscox to respond promptly, ensuring our pricing keeps pace with costs. We have updated and evolved our view of property exposure risks from natural catastrophes influenced by climate change through our set of realistic disaster scenarios (see pages 46 to 47). Our underwriting exposure remains well within our Board-approved risk appetite levels.

We are also investing in the underwriters of the future with the roll-out of our innovative and award-winning faculty of underwriting training academy, helping manage and mitigate underwriting talent risks.

*The key risks to which we refer here, and elsewhere in this document, also constitute the emerging and principal risks required under the UK Corporate Governance Code 2018.



The market landscape remains complex and changeable and we have utilised our good risk management practices to protect and create value for customers, employees, our business and investors.”

Hanna Kam
Group Chief Risk Officer

The risk



Reserving risk

The Group makes financial provisions for unpaid claims, defence costs and related expenses to cover liabilities both from reported claims and from ‘incurred but not reported’ (IBNR) claims. Reserving risk relates to the possibility of unsuitable case reserves and/or insufficient outstanding reserves being in place to meet incurred losses and associated expenses, which could affect the Group’s future earnings and capital.



Credit risk

The risk of a reinsurance counterparty being subject to a default or downgrade, or that for any other reason they may renege on a reinsurance contract or alter the terms of an agreement. The Group buys reinsurance as a protection, but if our reinsurers do not meet their obligations to us, this could put a strain on our earnings and capital and harm our financial condition and cash flows. Similarly, if a broker were to default, causing them to fail to pass premiums to us or pass the claims payment to a policyholder, this could result in Hiscox losing money.



Market risk

The threat of unfavourable or unexpected movements in the value of the Group’s assets or the income expected from them. This includes risks related to investments – for example, losses within a given investment strategy, exposure to inappropriate assets or asset classes, or investments that fall outside of authorised strategic or tactical asset allocation limits.

Risk landscape and how we manage the risk

Our consistent and prudent reserving philosophy serves to manage the risk of insufficient reserves to cover claims cost and associated expenses. The Group’s reserve levels continue to be resilient, and we have completed two legacy portfolio transactions in 2022, which will further limit the potential for reserve volatility. We have responded to the heightened inflationary environment with a detailed review of our key inflation assumptions against emerging experience and explicitly allowed further reserve margins for uncertainty. Close monitoring of developments will continue in 2023.

In 2022, many of our counterparties have faced the same external conditions as we have, and there remains an increased threat of global recession, which would in turn increase default risk. We have closely monitored our counterparty exposures during the year, and while the risk factors have increased, our credit exposures remain within the Group’s risk appetite. We have taken into account the potential economic outlook in our decision-making on outwards reinsurance purchasing for 2023.

The volatile economic environment during 2022, with sharp rises in inflation and accelerated interest rate increases, has enhanced risk in our asset portfolios. Investment losses in the year are largely due to mark-to-market adjustments to the value of bond portfolios, which are unrealised. These have potential for significant upside for 2023. Active decisions over 2022 have made a positive contribution to the investment result, offsetting some of the losses, and the outlook for market (asset) risk is expected to improve.

The risk



Liquidity risk

This relates to the risk of the Group being unable to meet cash requirements from available resources within the appropriate or required timescales, such as being unable to pay liabilities to customers or other creditors when they fall due. It could result in high costs in selling assets or raising money quickly in order to meet our obligations, with the potential to have a material adverse effect on the Group's financial condition and cash flows.



Regulatory, legal and tax governance

This relates to the risk that the business fails to act, or is perceived to have failed to act, in accordance with applicable legal, regulatory, and tax requirements in all of the jurisdictions where the Group operates. The regulatory, legal and tax environment continues to be complex, with frequent changes in rules and expectations which increase complexity in this area.

Risk landscape and how we manage the risk

We have refreshed our liquidity stress testing during 2022 and the Group remains in a strong liquidity position, with around \$1 billion of fungible liquidity, sufficient to cover expiring debt obligations, business plan liquidity requirements, and working capital headroom. Liquidity risk is monitored through the use of a detailed Group cash flow forecast which is reviewed by management quarterly, or more frequently as required.

We monitor the regulatory, legal and tax compliance landscape for emerging changes to local and international laws and regulations in the jurisdictions we operate.

The regulatory landscape in 2022 was dominated by the rapid application of a large volume of international sanctions against Russian interests following the invasion of Ukraine, which applied at different points throughout the year across all of our operations worldwide. Our embedded sanctions management processes enabled the compliance team to support the business in quickly responding to the complex and fast-changing sanctions landscape and we also supplemented our sanction-screening processes with additional reviews of the ultimate beneficial owners of a large number of insured risks across multiple business lines.

The most significant tax compliance development in 2022 has been the continued movement towards implementation of the OECD's Global Anti-Base Erosion Model Rules (Pillar Two) at a local level. As well as maintaining a watching brief on the evolution of this initiative, we have also worked with expert advisors and industry bodies such as the Association of Bermuda Insurers and Reinsurers and the Association of British Insurers to ensure industry-specific issues are identified and addressed. We seek to work transparently and collaboratively with our key tax authority stakeholders to anticipate the tax impact of both commercial and legislative changes.

We invest in proactive engagement with all of our regulators, including through our participation in the annual college of supervisors, hosted by the Bermuda Monetary Authority, which is an opportunity to update all of our regulators together on strategic developments across the Group.



Read more on risk management in chapter 2 and note 3.

The risk



Operational risk

The risk of direct or indirect loss resulting from internal processes, people or systems, or from external events. This includes cyber security risk, which is the threat posed by the higher maturity of attack tools and methods and the increased motivation of cyber attackers, in conjunction with a failure to implement or maintain the systems and processes necessary to protect the confidentiality, integrity or availability of information and data. Operational risk also covers the potential for financial losses, and implications from a legal, regulatory, reputational or customer perspective, for example, major IT, systems or service failures.

Risk landscape and how we manage the risk

Risks from people, process, systems and external events are closely monitored by senior executives across the business. Ongoing competition and retention of talent, heightened threat of cyber attacks and continued growth in hybrid working practices is affecting the operational risk landscape.

Our approach to monitoring operational risk has been adapted to enable the business to monitor the risks with a focus on promoting risk awareness and proactive reporting of operational incidents. We continue to embed our operational risk management including our defences against, and response to, cyber threats. During 2022, we reviewed the Group-wide set of crisis management response plans and performed a series of cyber crisis simulations to give our teams first-hand experience of dealing with a situation, and to test our response plans against potential operational disruption.

Talent risk is also being actively managed as part of a continued focus on our employee proposition, which has included the introduction of our all-staff share ownership initiative, HSX:26, and which in 2023 will include new ways to develop and map talent across the Group.

In addition, in 2022 mandatory monthly all-staff training was supplemented with additional topical modules such as sanctions, cyber security and risk culture throughout the year. We also delivered additional training to underwriting and claims teams on the sanctions developments referred to under the regulatory, legal and tax governance section (see page 10).

We monitor climate change related risk through a number of lenses, including underwriting selection, pricing, multi-year view of natural catastrophe risk, asset types, and developments in potential climate litigation. Every year we run a range of realistic disaster scenarios, updated with our in-house climate research (see pages 46 to 47), and we participate in regulatory stress testing exercises.

We have introduced investment environmental, social and governance (ESG) dashboards for each of our insurance carriers and we continue to embed our greenhouse gas targets for the Group, which in 2023 will include the development of a supporting action plan.



Climate change related risk

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