



Hiscox Ltd trading statement

Hamilton, Bermuda (4 May 2023) – Hiscox Ltd (LSE:HSX), the international specialist insurer, today issues its trading statement for the first three months of the year to 31 March 2023.

Highlights:

- Insurance contract written premiums¹ increased by 7.4% in constant currency to \$1,420.2 million (2022: \$1,363.7 million), underpinned by an attractive rate environment across all business segments.
- Hiscox Retail insurance contract written premiums increased 6.5% in constant currency to \$681.3 million (2022: \$670.2 million), driven by continued strong growth in Europe and solid performance in the UK and US.
- US DPD, as expected, showed accelerating momentum in the direct business, while overall growth temporarily moderated, in line with previous guidance, to 6.8%, as our partnership business embeds on the new technology. Momentum is expected to build through the year towards the middle of the 5% to 15% range, as previously communicated.
- Hiscox London Market returned to good growth, notably in major property, marine and terrorism, with insurance contract written premiums up 8.6% to \$320.8 million (2022: \$295.3 million). Given the attractive and improving market environment we have retained more risk resulting in net insurance contract written premiums² growth of 21.6%.
- Hiscox Re & ILS achieved excellent growth with net insurance contract written premiums up 37.6%, as we deployed additional organically generated capital to take advantage of the market hardened materially in the lead up to the January 2023 renewal season. Insurance contract written premiums grew 5.0% to \$418.1 million (2022: \$398.2 million), lower than net growth, mainly due to the market-wide subdued ILS capital appetite, as we saw net outflows of \$148.4 million in the quarter.
- Investment result was \$98.1 million (2022: loss of \$119.4 million), as we start to see improved investment returns on our bond portfolio with the bond reinvestment yield at 5.1% on 31 March 2023.
- Group claims performance is in line with our expectations.
- The Group remains well capitalised, enabling us to continue to deploy capital into the highly attractive (re)insurance market(s).

Aki Hussain, Chief Executive Officer, Hiscox Ltd, commented:

“We are seeing positive momentum across the Group. For our Retail businesses, growth momentum in the UK and US is accelerating in line with expectations, and Europe continues to deliver strong double digit increases. Hiscox London Market and Hiscox Re & ILS continue to thrive in very favourable market conditions, growing top line and materially increasing net retained premium, as we deploy our own capital to make the most of the opportunity. This combined with a much improved investment result, means the outlook for the half year is positive.”

¹ Insurance contract written premium (ICWP) is our top-line key performance indicator, comprising premiums on business incepting in the financial year, together with adjustments to estimates of premiums written in prior accounting periods. This growth metric is similar to Gross Written Premium under IFRS 4, and adjusted for certain items to ensure consistency with insurance revenue under IFRS 17. The adjustments primarily relate to reinstatement premium and non-claim dependent commissions.

² The definition of net insurance contract written premium (NICWP) has been adjusted for certain items to ensure consistency with insurance revenue under IFRS 17. The adjustments primarily relate to reinstatement premium and non-claim dependent commissions, along with reinsurance commissions offset.

Insurance contract written premiums for the period:

	Insurance contract written premiums to 31 March 2023	Insurance contract written premiums to 31 March 2022	Growth in USD	Growth in constant currency
	US\$m	US\$m	%	%
Hiscox Retail	\$681.3	\$670.2	1.7%	6.5%
Hiscox London Market	\$320.8	\$295.3	8.6%	9.9%
Hiscox Re & ILS	\$418.1	\$398.2	5.0%	6.9%
Total	\$1,420.2	\$1,363.7	4.1%	7.4%

Rates

The rate environment remains favourable across all Hiscox businesses, with particularly attractive rates in reinsurance which in turn supports rate strengthening in primary property insurance.

Hiscox Re & ILS benefitted from an average risk-adjusted rate increase of 41% in the first quarter. Since 2017, this business has achieved cumulative risk-adjusted rate increases of 116%. The reinsurance marketplace is undergoing a seismic shift, triggered by a combination of factors including continued capacity reduction in traditional and ILS markets, an inflationary environment and recent heightened catastrophe losses. At the January renewals, our reinsurance business benefitted from the best market conditions in over a decade. We achieved risk-adjusted rate increases of 45% in property and 26% in specialty, with rate improvement in all lines of business. The favourable market conditions have created the opportunity to refine the profile of business we are writing, through moving up the layers in towers at the same time as increasing net limits, and reducing exposure to aggregate covers where experience has been highly attritional.

For the April 1 Japanese renewals rate increases were approximately 20%, having already undergone material re-rating following wind loss activity in 2018 and 2019. Our existing market share coming into this renewal season was in line with our targets, as a result the positive rate environment in Japan was used primarily as an opportunity to move up the reinsurance programmes, further away from attritional layers, rather than increasing exposure, and consequently we have seen minimal premium growth, but continued growth in expected profitability. We remain optimistic about the reinsurance rate environment and expect the hard market conditions to persist throughout the remainder of 2023, and into 2024.

Hiscox London Market benefitted from an average risk-adjusted rate increase of 10%, as the hard reinsurance market is driving improving rate momentum in property (household up 25%; major property up 23%) and in specialty (terrorism up 14%). Overall, since 2017, the London Market portfolio has achieved cumulative rate increases of 86%. In 2023, casualty rates are softening with D&O rate declining 11%, driven by increased capacity and reduced IPO activity. This business class however, remains attractively priced, having achieved cumulative rate increases of over 180% since the end of 2017. In D&O we are seeing a significant rate differentiation between primary and excess of loss, with the rate competition intensifying as you go higher up the programmes. Our D&O underwriting strategy is to write profitable business by focusing on primary and lower layers of excess of loss, where risk-adjusted rates remain attractive. As communicated in March we expect premiums written to decline in the casualty division given pricing dynamics, although more than offset by growth in Property and Marine Energy.

Hiscox Retail, our less cyclical business, benefitted from an average rate increase of 7% in the first quarter. This was led by Hiscox USA where on average rates were up 9%, with strong momentum in cyber, allied health as well as DPD general liability. Hiscox UK saw rate increases of 8% on average, with double digit growth in cyber, commercial property and household. Hiscox Europe achieved an average rate increase of 5%.

Claims

The first quarter saw a number of natural catastrophes occur around the world. These included the tragic earthquakes in Turkey and Syria, severe convective storms in the US Midwest, and floods and cyclones in New Zealand. The total net loss reserved for these events as well as the non-natural catastrophe losses for the Group are in line with our expectations.

The first quarter has also seen capital markets volatility with a particular focus on banks. Our public D&O book is extremely diversified across over 700 clients and is underweight in banks which represent less than 1% of the book with a maximum line size of \$5 million. We have seen very low loss activity in this area so far this year.

Just over a year on from the start of the Russia/Ukraine conflict, which remains an ongoing event, Hiscox's estimated ultimate loss from all risks in the Ukraine and Russia remains unchanged at \$48 million net of reinsurance³. The majority of the loss estimate is incurred but not reported. Hiscox London Market exited the aviation hull insurance business in 2018 and political risk/trade credit business in 2017.

Economic inflation has remained stubbornly persistent despite central bank action, although there appear to be some signs that it may have peaked. While there is not a direct link between economic inflation and insurance claims inflation, it is an area where our considerable technical resources have been vigilant for some time. Hiscox has a conservative reserving philosophy and maintains robust reserves with a high probability of favourable run-off. Over the past two years we executed a number of legacy portfolio transactions and took early action in 2022 to strengthen our best estimate by \$55 million as a precautionary net inflationary load. The combination of these actions reinforces the robustness of Hiscox's reserves and balance sheet position.

When considering the front book, we mitigate inflationary pressures through a combination of exposure indexation and rate increases. Our current pricing and reserving assumptions incorporate expected inflation which is a multiple of experience seen in the book historically. The increased premiums being collected through rate and indexation are keeping pace with our view of expected inflation.

Investments

The investment result for the first quarter of 2023 is \$98.1 million (2022: loss of \$119.4 million), or a return of 1.3% year to date (2022: negative return of 1.7%). Assets under management at 31 March 2023 were \$7.3 billion (2022: \$7.2 billion).

Markets started the year with a continued positive momentum, supported by the expectation that both inflation and interest rates would peak during 2023. However, the quarter saw significant market turbulence, principally as a result of turmoil in the banking sector. Central banks have continued to raise interest rates in their fight against inflation, albeit at a more moderate pace. Market expectations shifted towards an expected change in policy later in the year given the potential economic impact of the banking system tightening lending conditions as a consequence of stress in the sector.

Our investment portfolio saw no material deterioration as a result of recent market turbulence. Whilst banking sector exposure is meaningful within our bond portfolio, it is widely diversified by issuer and geography, and focused on the highest rated banks. Our bond portfolio had no exposure to Silicon Valley Bank, or the affected US banks, and no exposure to Credit Suisse's additional tier one bonds.

³ Including impact of reinstatement premiums.

Against this backdrop, government bond yields fell and credit spreads rose, leaving the overall bond portfolio yield broadly unchanged at 5.1% on 31 March 2023.

Equity markets were volatile but still made gains over the quarter. Banking sector exposure via our equity fund holdings is low and diversified.

Overall, the Group maintains modest exposure to selected risk assets. Our book has no direct exposure to commercial real estate and we continue to look to incrementally improve long-term risk and capital adjusted outcomes through further diversification.

Hiscox Retail

Hiscox Retail insurance contract written premiums grew by 6.5% in constant currency to \$681.3 million (2022: \$670.2 million), or 1.7% in US Dollars. This is driven by continued double digit growth in our European division, temporary slower growth in the US, as our partners adjust to our new technology platform, and in the UK, where growth was moderated by a proactive exit from some non-core underwriting partnerships. Our commercial lines grew 7.8% in constant currency, continuing the positive momentum in our SME business.

We expect Retail growth to continue to trend towards the middle of the 5% to 15% growth range, and the first quarter represents solid progress as we report overall growth improving from 5.1% at full year 2022 to 6.5% in constant currency. This growth rate is expected to improve further as we see the US digital partnerships business embed the new technology platform and as the UK business underlying growth rate begins to drive headline growth.

Insurance contract written premiums for the period:

	Insurance contract written premiums to 31 March 2023		Insurance contract written premiums to 31 March 2022		Growth in USD	Growth in constant currency
	£m/€m	US\$m	£m/€m	US\$m	%	%
Hiscox Retail						
- Hiscox UK	£147.2	\$178.5	£145.2	\$195.1	(8.5)%	1.2%
- Hiscox Europe	€226.5	\$242.4	€200.5	\$226.5	7.0%	13.0%
- Hiscox USA		\$247.2		\$236.9	4.3%	4.3%
- Hiscox Asia		\$13.2		\$11.7	12.8%	11.4%
Hiscox Retail total		\$681.3		\$670.2	1.7%	6.5%

Hiscox UK

Hiscox UK insurance contract written premiums grew 1.2% on a constant currency basis, down by 8.5% in USD to \$178.5 million (2022: \$195.1 million). Retention rates continue to hold up well across the UK business.

The commercial lines business showed good growth of 7.0% in constant currency, with an uplift in new business. Commercial property and emerging professions professional indemnity benefitted from good premium persistency as a result of good rate increases.

In our art and private client (APC) book we were pleased to see a return to growth. We are planning to increase the number of APC new business underwriters in the second quarter, which will drive further momentum as the flow of new business remains strong with signs of some acceleration.

The improving underlying growth in the UK in the first quarter is masked as a result of the business reducing exposure to some delegated authority partnerships that were not performing in line with our expectations. This is part of the normal course correction to ensure high quality growth is delivered. This action has dampened growth by 3.5 percentage points in the first quarter, however it will have a reducing impact as the year progresses and the underlying growth momentum begins to drive headline growth.

Our e-trade extranet went live in the first quarter with 170 brokers now on the system. It is the first full cycle digital trading extranet built by an insurer that supports seamless integration with brokers' back office and generates quotes within seconds. Early feedback has been positive.

Hiscox UK has also launched the Hiscox Underwriting Academy, the latest incarnation of the long tradition we have of investing in talent across our underwriting ecosystem to ensure we are training, developing and growing top tier capabilities in this area. At a time of strong competition for talent, the combination of attracting top talent externally with first class internal talent development and career management is compelling.

Hiscox Europe

Hiscox Europe remains the strongest growing business in our Retail segment. Insurance contract premiums grew 13.0% on a constant currency basis, or 7.0% in USD to \$242.4 million (2022: \$226.5 million). As is customary, around 40% of the business renewed in the first quarter and we achieved favourable rate and indexation as well as higher retention than in the prior year.

While growth was strong across all five markets, France delivered particularly impressive top line growth of 17.2% in constant currency, driven by successful conversion of a high number of leads combined with a favourable competitive environment. Business growth in Germany of 9.1% in constant currency was impacted by a lagging effect of the underwriting actions taken last year in the cyber book, as we moved away from doing business with larger clients. Encouragingly, the appetite for Hiscox cyber insurance in Germany remains as we look to capitalise on our market leader reputation, which has been endorsed by two industry awards for cyber insurance innovation of the year and the brokers' top favourite.

We have made good progress on the roll-out of the new core technology across Europe. In Germany, our commercial business went live on the new system in April and we expect to complete the transition of our art and private client business in the first half of the year. In France, commercial business is scheduled to go live in the third quarter and the full migration to be completed by early 2024. Work in Benelux is expected to commence during the second half of the year. We now look forward to seeing this multi-year project deliver benefits to the business and our customers in terms of both efficiencies and experience.

Hiscox USA

In Hiscox USA, insurance contract written premiums grew 4.3% to \$247.2 million (2022: \$236.9 million), underpinned by double digit growth in renewal business.

The US broker business returned to growth, with insurance contract written premiums up 1.7% in the first quarter. Our professions portfolio of products remains industry leading and we will continue to drive growth and profitability where we see attractive opportunities.

In US DPD, accelerating growth in the direct business was partially offset by the expected slower momentum in partnerships as our new technology is being embedded. As a result, insurance contract written premiums grew 6.8%, towards the bottom of the 5% to 15% range, as previously guided.

All direct-to-consumer customers have been on the new technology platform since June 2022 and we have seen clear positive traction. We are encouraged by a steady acceleration of growth, driven by strong double digit momentum in new business. We expect this trend to continue as we make further investments in customer acquisition marketing, with campaigns targeted at professions based on our increased appetite under cyber and business owner policy.

91% of our partnerships business is now flowing through the new platform. Our partnerships team have been undertaking actions to increase activity, at both the partner and agency level, to encourage the marketing and usage of our platforms.

Following a two-year hiatus to the onboarding of new partners, we added 17 new portal partners to our digital platform in the first quarter and have a healthy pipeline of further opportunities. While we do not expect these partners to make a material impact on growth in 2023, as the build up to scale is gradual, we are encouraging our new partners to onboard as quickly as possible.

Overall, it is pleasing to see the sustainable positive momentum in the direct business which reinforces our confidence in the outlook for the rest of the US DPD business. We continue to work closely with our partners throughout the embedding process, which is expected to extend into the second half of 2023. The combination of continued acceleration in the digital direct business and improving momentum in digital partnerships is expected to drive US DPD growth towards the middle of the 5% to 15% range in 2023.

Hiscox Asia

DirectAsia delivered insurance contract written premiums growth of 11.4% in constant currency to \$13.2 million (2022: \$11.7 million). Singapore performed particularly well, benefitting from an increase in partnership business, a recovery in global travel, and a solid renewal performance.

Hiscox London Market

Hiscox London Market returned to good growth in the first quarter of the year, as insurance contract written premiums increased by 8.6% to \$320.8 million (2022: \$295.3 million), underpinned by the attractive and improving underwriting environment and double digit top line growth in major property, marine and terrorism books. In this attractive market environment we have retained more risk than in the previous year, which resulted in net insurance contract written premiums increase of 21.6% in the first quarter, in particular driven by a strong quarter in marine, energy and specialty.

Rates in the primary property market are attractive with further strengthening across the board. Growth was particularly pronounced in major property and with April and June renewals being traditionally busy for this line of business, the outlook for the first half of the year is positive. Our flood business has a healthy pipeline of opportunities, partially driven by Citizens Property Insurance Corporation, a US insurance company for home-owners who cannot obtain insurance elsewhere, mandating all policies to have a linked flood policy.

Marine, energy and specialty delivered strong double digit growth, driven by a combination of facilities renewing in the first half and solid growth in the open market due to investment and increase in oil prices/production.

In casualty, although D&O rates are declining they remain attractive, and our underwriters are focused on retaining the high quality of our portfolio, deploying capital where margins are favourable. We expect revenue and exposure to moderate in this segment in 2023.

April saw the launch of our ESG sub-syndicate named "Syndicate 3033 ESG". There has already been a high level of interest from prospective partners, as we actively engage with our key brokers and look to build third party quota share relationships. We are currently developing our ESG rating methodology, which will involve a number of external data sources and rating agencies, and will form the basis of Hiscox's view of ESG risk. We are looking forward to starting to write risks into this new sub-syndicate in the second quarter.

We also continue to invest in our digital capabilities with data driven risk selection and underwriting. 2023 has seen progress in building out our underwriting ecosystem with new general liability business now live on the enhanced platform. We are also pleased to see our FloodPlus re-platforming go-live as of 1 April, an important milestone in setting the business up for future growth.

Hiscox London Market has had favourable claims experience in the first quarter of 2023, with no material claims in the period despite several large losses within the industry, particularly in the energy sector.

Hiscox Re & ILS

Hiscox Re & ILS delivered excellent net insurance contract written premiums growth of 37.6% in the first quarter, as the Group increased its appetite for catastrophe risk to take full advantage of the highly attractive rate and underwriting environment. Insurance contract written premiums grew by 5.0% to \$418.1 million (2022: \$398.2 million), at a lower rate than net, mainly due to the market-wide subdued ILS capital appetite.

With regard to the April 1 Japanese renewals, Hiscox already has an attractive market share in Japan, so the business took the benefit of the rate increases without growing exposure. June and July renewals have every potential to be extremely attractive, so the outlook for net growth in the first half is positive.

Historically, Re & ILS premium has earned equally over the course of the year. Under IFRS 17, the earn through of premiums of natural catastrophe risks in the Re & ILS segment will align to the risk profile of the business, with the majority of premium to earn in the second half of the year. As a result whilst there is a negligible impact on the full year expected profitability. However, the first half will see lower profits as the profile of premiums earned is skewed to the second half of the year.

Consistent with our expectations of a general trend in the sector, the first quarter saw net outflows of \$148.4 million from our ILS funds reflecting reduced appetite from third party capital providers across the sector and our assets under management reduced to \$1.8 billion (31 December 2022: \$1.9 billion). The combination of scarcity of new capital coming into the ILS market and continuing uncertainty around when it will return in any meaningful way has contributed to an ongoing positive rating environment. The ILS asset class and other similar vehicles will remain a continuing feature of our market and we are actively engaging with potential investors to ensure that when their capacity does return, we are well placed to support this renewed demand.

While it was an active first quarter in terms of large loss activity for the reinsurance market, our natural catastrophe losses were in line with our expectations and budget.

Dividend and capital management

The Group remains well capitalised on both a regulatory and ratings basis, with continued strong capital generation and high levels of liquidity. We will deploy capital where we see attractive growth opportunities into each of business units, in line with our strategy.

ENDS

A conference call for investors and analysts will be held at 9:00 BST on Thursday, 4 May 2023.

Participant dial-in numbers:

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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 3,000 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.