Corporate governance

As the size and shape of the Hiscox Group continues to grow and develop it is vital that we have in place a robust governance framework which underpins our business model.

Overview and basis of reporting

Hiscox Ltd (the Company) is the Bermuda incorporated holding company for the Group. The Company has a premium listing on the London Stock Exchange. The corporate governance framework for the Company is derived from its constitution together with Bermuda Companies Act legislation. The Listing Rules require the Company to report against the UK Corporate Governance Code published in April 2016 (the Code). During 2017, and up to the date of this Report and Accounts, the Group has complied with the provisions of the Code in all material respects. The FRC has published a revised UK Corporate Governance Code, which is expected to apply to accounting periods beginning on or after 1 January 2019.

The Board of Directors

As at the date of this report, the Board comprises the Non Executive Chairman, three Executive Directors, and eight independent Non Executive Directors, including a Senior Independent Director. Biographical details for each member of the Board are provided on pages 52 to 53. The roles and activities of the Chairman and Chief Executive are distinct and separate. The Chairman is responsible for running an effective Board including oversight of corporate governance and strategy. The Chief Executive has responsibility for running the Group's business.

The Nominations Committee monitors the composition of the Board and considers its diversity, balance of skills, experience, independence and knowledge to ensure that it remains appropriate. The composition of the Board was also reviewed as part of the Board evaluation described on page 57.

Non Executive Directors are appointed for a specified term. Their terms of appointment state that their continuation in office is contingent upon their satisfactory performance and prescribe the time commitment required of them in order to discharge their duties. The terms also state that appropriate preparation time is required ahead of each meeting.

In accordance with the Company's Bye-Laws, Michael Goodwin, Thomas Hürlimann and Costas Miranthis will seek re-appointment at the 2018 Annual General Meeting. In accordance with the Code, the remaining Directors will also submit themselves for re-appointment.

The Board have set voluntary restrictions on the number of other Directorships a Non Executive Director is permitted to hold. The external commitments of the Chairman and the Executive Directors are disclosed in their profiles on page 52. The remuneration of the Non Executive Directors does not include performance-related elements and is reviewed annually.

While the Board acknowledges the value that knowledge and experience of the organisation can bring, it also recognises the need to progressively refresh Board membership over time. Non Executive Directors will normally be expected to serve for six years. They may be invited to serve for longer, but service beyond nine years is unlikely. Any service beyond six years is subject to a particularly rigorous review.

The Chairman, Robert Childs, did not meet the independence criteria set in the Code on appointment. However, the Code does not require the independence or otherwise of a Non Executive Chairman to be considered subsequent to their appointment. Caroline Foulger is a former partner of PwC, the Company's auditors, but retired from the firm on 31 December 2012, prior to PwC's appointment as auditor, and is considered to be independent. The Board considers all other Non Executive Directors to be independent within the meaning of the Code as there are no relationships or circumstances which would interfere with the exercise of their independent judgement.

All Directors are entitled to seek independent professional advice at the Company's expense. A copy of any such advice would be provided to the Company Secretary who would then circulate it to all Directors. As part of the Board evaluation conducted during the year, Directors were asked to assess the quality of the support they receive from the Company Secretary and the responses were all positive. The Board meets at least four times a year and operates within established Terms of Reference. It is supplied with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities. The Board of Hiscox Ltd held four scheduled meetings during 2017.

The Board and Committee meetings usually take place over two days when all of the Directors convene in Bermuda.

There is a formal induction process for new Directors and induction training was provided to our three new Hiscox Ltd Board members: Michael Goodwin, Thomas Hürlimann and Costas Miranthis, during the year. The needs of a new Director joining the Board are assessed and appropriate training arranged. Directors' training requirements were assessed as part of the Board evaluation undertaken by Lintstock. Existing Directors are provided with the opportunity to attend training

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> The Board of Directors

sessions. During the year Directors also received briefings on the new Group-wide Hiscox Integrated Capital Model (HICM) and attended a number of in-focus sessions on specific areas of the business.

Prior to the Board and Committee meetings taking place, the Board and the Executive Committee together hold in-focus sessions exploring specific aspects of the Hiscox Group. These presentations are sometimes made by members of the Executive Committee, or other members of the management team, or in some cases by individuals with particular expertise in certain markets. During these sessions the Board has explored matters including a major IT programme for the USA, portfolio underwriting, cyber underwriting, the US business and ILS strategic options. In addition, the Board and Executive Committee received a presentation on developments in the FinTech and InsureTech markets from external experts in this field.

The Board's Terms of Reference include a Schedule of Matters Reserved for Board Decision, a copy of which can be found on the Group's website: www.hiscoxgroup.com. Aside from the opportunity that Non Executive Directors have to challenge and contribute to the development of strategy in regular Board meetings, Non Executive Directors also attended the annual Hiscox Partners' meeting held during the year.

The Board retains ultimate authority for high-level strategic and management decisions, including: setting Group strategy, approving significant mergers or acquisitions, approving the financial statements, declaration of interim dividends and recommendation of the final dividend, approving Group business plans and budgets, approving major new areas of business, approving capital raising, approving any bonus issues or rights issues of share capital, setting Group investment guidelines, approving the Directors' remuneration, approving significant expenditure or projects, and approving the issue of share awards.

The Board has appointed an Executive Committee and authorised the boards of the trading entities and business divisions to manage their respective operational affairs, to the extent that Board or Executive Committee approval is not required.

The Board's committees

The Board has appointed and authorised a number of committees to manage aspects of the Group's affairs, including financial reporting, internal control and risk management. Each committee operates within established written Terms of Reference and each committee Chairman reports directly to the Board.

The Audit Committee

The Audit Committee of Hiscox Ltd comprises Lynn Carter, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan and Costas Miranthis. Caroline Foulger is considered by the Board to have recent and relevant financial experience and is Chair of the Committee. The Committee as a whole is considered to have competence relevant to the sector in which the Company operates. Further information on the background and experience of the Committee members is included in their profiles on pages 52 and 53. The Committee operates according to Terms of Reference published on the Group's website and met four times during the year to assist the Board on matters of financial reporting, risk management and internal control, and to determine the external auditor's fees. The Committee monitors the scope, results and cost effectiveness of the internal and external audit functions, the independence and objectivity of the external auditors, and the nature and extent of non-audit work undertaken by the external auditors together with the level of related fees. The Audit Committee receives reports from the auditors who also attend meetings of the Committee to report on the status of their audit and any findings. This allows the Committee to monitor the effectiveness of the auditors during the year.

PwC was appointed as the Company's auditor at the 2016 Annual General Meeting. There are currently no plans to re-tender the audit. The internal and external auditors have unrestricted access to the Committee. All non-audit work undertaken by the Group's external auditors with fees greater than £50,000 must be pre-approved by the Committee. PwC has confirmed to the Committee that in its opinion it remains independent. The Committee is satisfied that this is the case. In respect of the 2017 financial year, the Committee reported to the Board on how it had discharged its responsibilities, provided advice to the Board on how the Annual Report and Accounts were fair, balanced and understandable, and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Further information on the activities of the Committee is included in the Audit Committee report on pages 60 and 61. The arrangements by which staff may, in confidence, raise concerns about possible improprieties are described in the corporate responsibility statement on page 48. The arrangements were reviewed and updated and reissued to all employees across the Group in September 2016.

The Group believes that opportunity should be limited only by an individual's ability and drive, and the Committee considers diversity – including gender diversity – when recommending appointments to the Board.

The Nominations Committee

The Remuneration Committee

The Remuneration Committee comprises Lynn Carter, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan and Costas Miranthis. It is chaired by Colin Keogh. The Committee operates according to Terms of Reference published on the Group's website and generally meets three times a year. The Remuneration Committee takes care to recognise and manage conflicts of interest when receiving views from Executive Directors or senior management, or consulting the Chief Executive about its proposals. No Executive is permitted to be present when the Committee discusses his or her remuneration. The Committee's role in remuneration is described in the remuneration section on page 65. The overall aim is to attract and retain high-calibre individuals and incentivise them to deliver long-term success for the Company. Executive Directors are subject to malus and clawback provisions in relation to their remuneration and the circumstances in which these would apply are described on page 82.

The Nominations Committee

The Nominations Committee comprises Lynn Carter, Robert Childs, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan and Costas Miranthis. It is chaired by Robert Childs. It operates according to Terms of Reference published on the Group's website and meets as and when the Chairman determines appropriate, but at least once a year.

The Committee's role is to monitor the structure, size and composition of the Hiscox Ltd Board and, when Board vacancies arise, to nominate, for approval by the Board, appropriate candidates to fill those roles. The Group believes that opportunity should be limited only by an individual's ability and drive, and the Committee considers diversity – including gender diversity – when recommending appointments to the Board. The Committee has a policy in place to ensure that the candidate pool for each new appointment includes at least one female but does not consider it appropriate to set quotas for diversity.

More information on the Group's diversity polices and work during the year can be found in the corporate responsibility report on page 48.

During 2017, the external search consultancy firm JCA Group was commissioned to identify suitable candidates for the role of Independent Non Executive Director. Other than undertaking search assignments, JCA has no connection to the Group. The search brief was aimed at balancing the existing skills, diversity, experience, independence and knowledge on the Board. Each candidate was interviewed by the Chairman, the Chief Executive and the Group Human Resources Director. This process produced a shortlist and, from that shortlist, Michael Goodwin, Thomas Hürlimann and Costas Miranthias were nominated by the Committee. In July 2017, the Board approved these appointment on the recommendation of the Committee. The three new Non Executive Directors bring additional international experience and diversity to the Board. Michael Goodwin has experience in the Asia-Pacific markets, Thomas Hürlimann has experience working in Europe and Costas Miranthis has a background in Bermudian and US reinsurance operations. The Committee also has a role in considering the succession planning for Executive Directors and senior management, and a remit to make recommendations on future leaders.

The Investment Committee

The Investment Committee has oversight of the Group's investments and comprises Lynn Carter, Robert Childs, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan, Costas Miranthis, the Chief Executive and the Chief Financial Officer and is chaired by Robert Childs. At each meeting the Committee receives an update from the Chief Investment Officer on the performance of the Company's investment portfolio. It operates according to Terms of Reference and meets as and when the Chairman determines appropriate, but at least once a year.

The Conflicts Committee

The Group has a Conflicts Committee which comprises Lynn Carter, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan and Costas Miranthis and is chaired by Bob McMillan, following the retirement of Ernst Jansen in November 2017. It meets as and when required. Conflicts of interest may arise from time to time because Syndicate 33, Syndicate 3624 and Syndicate 6104 are managed by a Hiscox-owned Lloyd's

An alert service is available on hiscoxgroup.com to notify any stakeholder of new stock exchange announcements.

Shareholder communications

Managing Agency. 27.4% of the Names on Syndicate 33 are third parties and 72.6% of Syndicate 33 is owned by a Hiscox Group company. 100% of Syndicate 3624 is owned by a Hiscox Group company. 100% of Syndicate 6104 is owned by third parties. The Committee serves to protect the interests of the third-party Syndicate Names. There is also potential for similar conflicts to arise as a result of the Group's insurance-linked securities (ILS) activity and the Committee serves to protect the interests of the external investors in the ILS funds.

The Risk Committee

The Risk Committee oversees the risk management framework and advises the Board on how best to manage the Group's risk profile. The Committee normally meets four times a year. The Committee comprises Lynn Carter, Robert Childs, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan and Costas Miranthis. It is chaired by Lynn Carter. The risk management framework is described in the risk management section on pages 38 to 47.

The Group has a dedicated risk team led by the Chief Risk Officer, which reports to both the Risk Committee of the main Board and to those of the relevant subsidiary boards. At each of its meetings during the year the Risk Committee reviews and discusses a risk dashboard and critical risk tracker that monitor the most significant exposures to the business, including emerging risks and risks that have emerged but are evolving. The Risk Committee also engages in focused reviews, a recent topic being information cyber security. Stress tests and reverse stress tests (scenarios which could potentially give rise to business failure as a result of a lack of viability or capital depletion) are also performed and reported on to the Risk Committee. In light of these arrangements the Directors are satisfied that a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, has been carried out during the year.

The Executive Committee

The Executive Committee comprises Senior Executives and normally meets every six weeks. It makes recommendations to the Board and approves various matters (some of which may also require Board approval). The Committee approves senior appointments and remuneration outside the scope of the Remuneration Committee or Nominations Committee, approves operational policy, takes decisions on annual budgets, business plans, mergers and acquisitions, considers significant issues raised by management and approves exceptional spend within the limits established by the Board. Below this there are local management teams that drive the local businesses.

Performance evaluation

During the year, in line with the Code requirement, the Company undertook an evaluation of the Board and its Committee which was externally facilitated by Lintstock. The last external evaluation was carried out in 2014. Other than carrying out this evaluation, Lintstock has no other connection to the Group. The external evaluation involved one-to-one interviews with the Chairman and individual Directors. Most of the recommendations in the evaluation report were characterised as potential refinements to existing practices rather than material changes in approach.

The top priorities for the Board in 2018 were identified as supporting the Company in a changing environment, managing succession and transition, maximising the contribution of the Non Executive Directors and continuing with the in-focus session on certain areas of the business.

A written report of the evaluation was produced by the independent evaluator and circulated to all Directors. The key themes and the areas for further development were then discussed at a Board meeting in February 2018.

In addition to the external evaluation of the Board, the Senior Independent Director, Colin Keogh, met with the other Non Executive Directors without the Chairman present to appraise the performance of the Chairman. During the year, the Non Executive Directors also periodically met without the Executive Directors to discuss a wide range of issues concerning the Company.

No issues arose which would prevent the Chairman from recommending the re-appointment of a Non Executive Director. The Chairman met with the Chief Executive and the Chief Executive met with each of the Executive Directors, to discuss their performance over the year and to set targets for the year ahead.

Shareholder engagement

During the year the Company has engaged with its largest shareholders on proposed changes to the implementation of the remuneration policy as outlined on pages 76 to 84.

The views expressed by shareholders have been reported back to the Board through its committees. The Executive Directors communicate and meet

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The Nominations Committee

directly with shareholders and analysts throughout each year, and do not limit this to the period following the release of financial results or other significant announcements. All Directors attended the Annual General Meeting in 2017.

The Company also commissions independent research on feedback from shareholders and analysts on a regular basis following the Company's results announcements. This research, together with the analysts' research notes, is copied to the Non Executive Directors in full. The Chairman attends a number of meetings with shareholders and analysts.

In addition, any specific items covered in letters received from major shareholders are reported to the Board. Major shareholders are invited to request meetings with the Senior Independent Director and/or the other Non Executive Directors. An alert service is available on www.hiscoxgroup.com to notify any stakeholder of new stock exchange announcements.

Accountability and internal control

Risk is at the heart of any insurance organisation and the management of risk is fundamental to the success of its business model. The principal risks facing this organisation are described on pages 41 to 47 together with an explanation of how they are managed or mitigated. These risks are managed dynamically in response to changing circumstances. For example, since last year, regulatory and legal risks has been separated from operational risk in recognition of its increasing pertinence across the Group. Emerging risks often influence our strategic approach, and are considered holistically as part of the wider risk landscape. These principal risks comprise the Group's 'critical risks', or exposures which materially threaten financial strength, severely impact business operations or significantly affect strategy. Critical risks often develop over a short time, or offer limited time to react, respond or recover, thereby requiring continuous focus. The Group is subject to regulatory requirements aimed at ensuring its continuing solvency and has established arrangements to assess and manage its principal risks continually. Risk and solvency assessments are conducted and the Group is required to assess the capital resources necessary to achieve its strategic business objectives over the coming year while remaining solvent, given its risk profile. This includes a forward-looking assessment which considers the business plan over a three-year period.

Notwithstanding the uncertainties arising from the risks summarised on pages 38 to 47 there is a statement at page 85 which confirms that for the 2017 financial year the Directors considered it appropriate to adopt the going concern basis of accounting. For the reasons explained above, the prospects of the Company are assessed over a longer period than the 12 months required by the Code. The Group calculates and projects forward the capital requirements of its regulators and those of the rating agencies to ensure that it will continue to meet any applicable solvency requirements and achieve the ratings it feels are necessary to conduct its business profitably. While the Board has no reason to believe the Group's business model will not be viable over a longer period, the period over which the Board considers it possible to form reasonable expectations as to its position is the three years to 31 December 2020. This corresponds to the forward-looking element of the Group's regulatory solvency assessments and allows reliance to be placed on the output from those assessments as well as the other arrangements described above. On the basis of its robust assessment of the principal risks, and on the assumption that they can continue to be managed or mitigated as described (and taking account of the most recent solvency assessments, together with the results of the stress tests and focused risk reviews), the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2020.

As part of our internal controls, the internal audit function provides objective and independent assurance and advice to the Audit Committee and the Board over the processes and systems of internal control and risk management operating in the Group. It achieves this through carrying out an annual risk-based programme of reviews, the scope of which considers an independent view of the risks facing the Group, as well as other factors such as strategic initiatives, emerging risks and change. It includes an annual review of the Group's compliance with the governance requirements emanating from its regulators and the Code. The findings of these internal audit reviews are reported to the Audit Committee.

Taken together the risk and internal audit activities described here enable the Board to monitor the Group's risk management and internal control systems.