HISCOX

Hiscox Group tax strategy

Hiscox's approach to paying tax

Hiscox has a responsible approach to tax. We pay the right amount of tax in every operating location, while creating sustainable value for the benefit of the shareholders. We strive to act responsibly by complying with all relevant legislation, meeting all compliance and reporting obligations. We operate in an open and transparent manner with the tax authorities in every jurisdiction. We plan to be efficient with our tax affairs, but tax mitigation is not a driver for activity. The purpose of our tax strategy is to communicate the policy for the management of tax risk within the Hiscox Group.

1. Introduction

1.1. Overview of the Group

Hiscox is a global specialist insurer, headquartered in Bermuda and listed on the London Stock Exchange. We can trace our roots in the Lloyd's market back to 1901 and our adaptability has meant we have evolved organically over time.

Today, Hiscox employs over 3,300 people across 14 jurisdictions with customers and business partners across the globe. As a business we pay taxes in all the jurisdictions in which we operate: including corporate income taxes, payroll and related employment taxes, business property taxes, and sales and other indirect taxes.

We are domiciled in Bermuda for three reasons:
1. its position as a global reinsurance centre;
2. its stable regulatory environment;
3. its favourable tax environment.

The regulatory and strategic rationale for locating in Bermuda are the overwhelming factors in this decision. The Hiscox Group is regulated by the Bermuda Monetary Authority (BMA), under the Bermuda Group Supervisory Framework. The Bermudian reinsurance market is one of the largest in the world with annual gross written premiums in 2018 of $103 billion[1]. Bermuda's insurance regime has also been recognised as equivalent to Solvency II.

Hiscox has a UK listing as we believe the London Stock Exchange is a good place for our shares to be traded. It has a strong reputation, deep liquidity and capital market with good insurance expertise.

This tax strategy summarises our approach to ensuring that we pay the correct amount of tax in all the jurisdictions in which we operate.

1.2. Review, communication and publication

Ultimate responsibility and ownership of this tax strategy resides with the Board of Hiscox Ltd. It is reviewed and updated annually for approval by the Board.

Board approval is sought in respect of any amendments to this document. Periodic reviews of the tax strategy are undertaken to assess the appropriateness of the strategy and to ensure tax risk controls and monitoring activities are conducted as documented.

This strategy is effective from 1st January 2019.

1.3. Applicability to UK sub-group

The UK has introduced specific legislation which requires the Group to publish certain information about our tax strategy as it is relevant to the management of UK taxes by our UK subsidiaries. Under paragraph 19(2), Schedule 19, Finance Act 2016, there is a requirement that the UK sub-group must prepare and publish a sub-group tax strategy, containing the information required by paragraph 20, in accordance with this paragraph. Hiscox considers that the publication of this tax strategy meets the requirements imposed on its UK subsidiaries by Schedule 19 of Finance Act 2016.

1.4. Risk management

Our core business is to take risk, which is guided by a strategy to maximise return on equity within a defined risk appetite. The Group's appetite for risk is set by the Board and is aligned to the strategic objectives of the Group. Each of the Group's business units must function within the risk parameters set by the Board, and these are monitored both locally and centrally, by risk type and in the aggregate.

The Group has a risk and control register in place to assess material risk exposures and identify the key controls in place to mitigate each risk based on the impact/quantum (financial and non-financial factors) of that risk or its likelihood of occurrence. As the risks are documented in the risk register, they are escalated as appropriate to the Group's Risk Committee. The objective is not to avoid or eliminate risk entirely, but to manage closely the Group's exposure to risk.

This framework is supported by a central risk team that reports to the Group's Risk Committee, which monitors and reviews the risk profile and the effectiveness of the Group's risk management activities. More information on the Group's approach to risk management can be found in the Annual Report and Accounts.

[1]Source: Association of Bermuda Insurers and Reinsurers.

1.5. Tax objectives and acceptable level of tax risk

The Group is subject to income taxes levied by the various jurisdictions in which we operate. The division of taxing rights between these jurisdictions determines the effective rate of income tax which applies to the Group.

We comply with legal requirements in the taxing jurisdictions in which we operate, in a manner that ensures we pay the right amount of tax while creating sustainable value for the benefit of the shareholders. This approach is underpinned by an open and transparent relationship with the tax authorities in these jurisdictions.

2. Governance of tax and tax risk

2.1. Policy oversight

The Group CFO has responsibility for tax at Board level. This includes communicating and advising the Board on the tax affairs and risks of the Group to ensure:

- the proper control and management of tax risk;
- the Group's tax position is planned in line with the Group's strategic objectives;
- the Group's tax charge is appropriately stated in the statutory accounts and tax returns.

2.2. Policy principles

The Board has established that the following principles will form the basis of the tax management philosophy and policy of the Group.

Overall approach to tax – Hiscox strives to act responsibly by being compliant with all relevant legislation, meeting all compliance and reporting obligations in the jurisdictions in which we operate.

Risk and internal control – Hiscox manages tax in line with the Group's governance framework and procedures (see section 1.4 above for further details). The Group has put in place a network of internal controls designed to respond effectively to emerging and existing tax risks, and to manage risk effectively within the parameters set by the Board. Where such processes and controls are found to be ineffective, remediation steps are taken on a timely basis.

Change management – Hiscox ensures there is a strategy in place that enables the Group to manage tax risks arising from changes in legislation or the business operations.

Planning appetite – the Hiscox Group aims to be efficient in its tax affairs but tax mitigation is not a driver for activity. Tax planning opportunities arising from significant commercial transactions will be considered by the Board to ensure a beneficial post-tax result of any transaction.

2.3. Key controls

Hiscox has established key controls to manage the risk of incorrect tax accounting and reporting in keeping with the overall risk management framework. The fulfilment of these is documented, whether in tax returns, working papers or other internal documents.

This process and control documentation is subject to a program of ongoing improvement, including relevant changes to the underlying processes or when new risks are identified.

The key controls are monitored to ensure:

- that governance processes are such that the Board and Audit Committee have oversight of high risk and material transactions/processes;
- that tax processes and controls operate effectively;
- that remediation processes are put in place to address ineffective or inadequate controls.

2.4. Internal audit

The role of Hiscox Internal Audit function is to provide independent assurance that the Group's risk management, governance and internal control processes, including the above mentioned key controls, are operating effectively and in line with the Group's strategic objectives. Internal Audit reports directly to the Group Audit Committee as a means of ensuring their independence and objectivity.

3. Roles and responsibilities

Hiscox ensures it has sufficient resource with the appropriate skills and experience to meet its filing and reporting obligations and manage tax risk appropriately. External advice is sought in respect of significant transactions and material risks or where the required expertise cannot be sourced in-house.

Ultimate responsibility for tax resides with the Board. The Board has delegated this responsibility to the Group CFO who reports to the Board as required. Process owners within the business are nonetheless responsible and accountable for meeting the tax obligations, controls and policies and reporting to the Board for their respective functions.

This segregation of responsibilities enables the Group to operate a three lines of defence model in respect of tax risk:

- individual risk owners – those individuals that manage the tax risk on a day-to-day basis;
- oversight of risk – the Group's risk committee provides challenge and support to those individual risk owners;
- independent assurance – both internal and external audit ensure that tax risks are being managed in line with policy and process in place.

The finance function is the main process owner responsible for all taxes within the Group. With regards to tax, the finance function's key objectives are:

- ensuring compliance with relevant laws and filing obligations across the Group in the jurisdictions in which we operate;
- ensuring that Hiscox's reputation is not adversely impacted by the way it manages and monitors its tax risk within the Group;
- maintaining an open and cooperative relationship with tax authorities wherever possible;
- ensuring that taxes (and tax risks) are managed to provide sustainable outcomes, within the parameters of the Group's strategic and commercial objectives;
- ensuring any tax planning opportunities arise from commercial and economic activity and are undertaken within the remit of the relevant applicable law.

4. Relationship with tax authorities

The Group maintains an open, transparent and cooperative relationship with tax authorities and seeks to work in collaboration with them in relation to its tax affairs:

- in the event of an error arising in a tax return, full and unprompted disclosure, where foreseen by law is;
- made to the relevant tax authority;
- the Group discloses any relevant planning it undertakes to the relevant tax authority in line with the disclosure requirements and criteria set out by the relevant legislation;
- the Group seeks active cooperation with tax authorities in respect of current, future and retrospective tax risks, events and interpretation of the law across all relevant taxes and duties, to facilitate relationships of trust.

5. Tax planning

Timely and accurate consideration of the tax consequences – both risks and opportunities – arising from business transactions is key to effective tax management. The Hiscox Group plans to be efficient with its tax affairs, but tax mitigation is not a driver for activity.

Tax planning opportunities arising from significant commercial transactions will be considered by the Board.

Any tax planning to be considered by the Board must be supported by an appropriate level of tax analysis. The appropriate level of tax analysis will vary depending on the level of associated tax risk and materiality to the Group.

In addition to the principles outlined in section 2.2. the following considerations are used to determine the appropriateness of tax planning risk:

- reputational impact;
- strength of tax advisors' opinion;
- impact on cash flow;
- impact on financial accounts.

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