HISCOX

Hiscox Climate Report 2020

Hiscox is a diversified international insurance group with a powerful brand, strong balance sheet and plenty of room to grow.

We are listed on the London Stock Exchange, headquartered in Bermuda, and currently have 3,400 staff across 14 countries and 35 offices.

Our products and services reach every continent, and we are one of the only insurers to offer everything from small business and home insurance to reinsurance and insurance-linked securities.

Introduction

Principles

Climate change affects the very fabric of our business as a global (re)insurer. Our products and services help customers prepare for climate-related events and recover from them, so every area of our business – from our retail segments through to our big-ticket London Market and reinsurance lines – considers climate-related issues in how they underwrite and operate.

I am pleased then to report another year of good progress in our environmental, social and governance efforts (ESG), including our climate-related work. We are guided by the Hiscox ESG framework we developed in 2019 (see page 3), which sets out how we think about all aspects of ESG, helping us to stay focused and make an impact.

This is important, because being pragmatic and consistent matters when it comes to tackling climate change. Over the past year, we've done this in a whole host of ways – by extending our network of country green teams, which drive positive environmental change within our offices; by participating in the Prudential Regulation Authority's General Insurance Stress Test, which for the first time contained a climate change risk scenario; by publishing our first impact report, which showcases how we have supported good causes through donations and volunteering, including a number of environmental initiatives; by offsetting our carbon emissions through a Verified Carbon Standard renewable energy programme in India; and by creating a strategic action plan for our UK regulated insurance entities and appointing senior managers with responsibility for climate change.

We also continue to publish new climate-related information – a climate change paper that outlines our approach across the Group, a responsible investment policy, and a range of issues-led blogs and articles. We publicly report on our progress, not just through this report but also through independent indices such as CDP, the Dow Jones Sustainability Index, FTSE4Good and ISS ESG, and you can view our latest scores on page 6.

The next 12 months will bring different challenges, particularly in a post-COVID world as we set new expectations, develop new ways of working and define new ways to measure progress. At Hiscox, this work will include finalising our new carbon emission targets, developing a comprehensive ESG dashboard to review and refine activity, exploring a new approach to carbon offsetting, and continuing to expand our network of country green teams. There is still more to do, and we will play our part with the kind of pragmatism and consistency that climate change requires.

So I hope you find this report useful, and if you'd like to find out more on how we endeavour to be a responsible business, please visit our website www.hiscoxgroup.com.

Mike Krefta
CEO, Hiscox Re & ILS
ESG Executive Sponsor

Recent highlights

Key achievements from the last 12 months

Board and ExCo oversight

Established a cycle of twice-yearly reporting to the Executive Committee and Board on climate-related issues to ensure appropriate oversight.

Articulated ESG strategy

Developed a new strategic approach to climate-related issues through the creation of the Hiscox ESG framework.

Climate change accountability

Appointed two senior managers with regulatory responsibility for managing the financial risks from climate change on our relevant UK boards.

Giving back to society

Donated over $8 million to good causes, including $7 million pledged to support charities responding to COVID-19 such as The Felix Project, which reduces food waste in London.

Climate stress testing

Participated in the UK's Prudential Regulation Authority biennial General Insurance Stress Test which for the first time required us to examine the potential impact of a climate-related event on our business.

Highlighting flood risk

Hosted a virtual reality event for some of our key US brokers, bringing the flood risk to life and demonstrating the uniqueness of our FloodPlus products.

Improved risk modelling

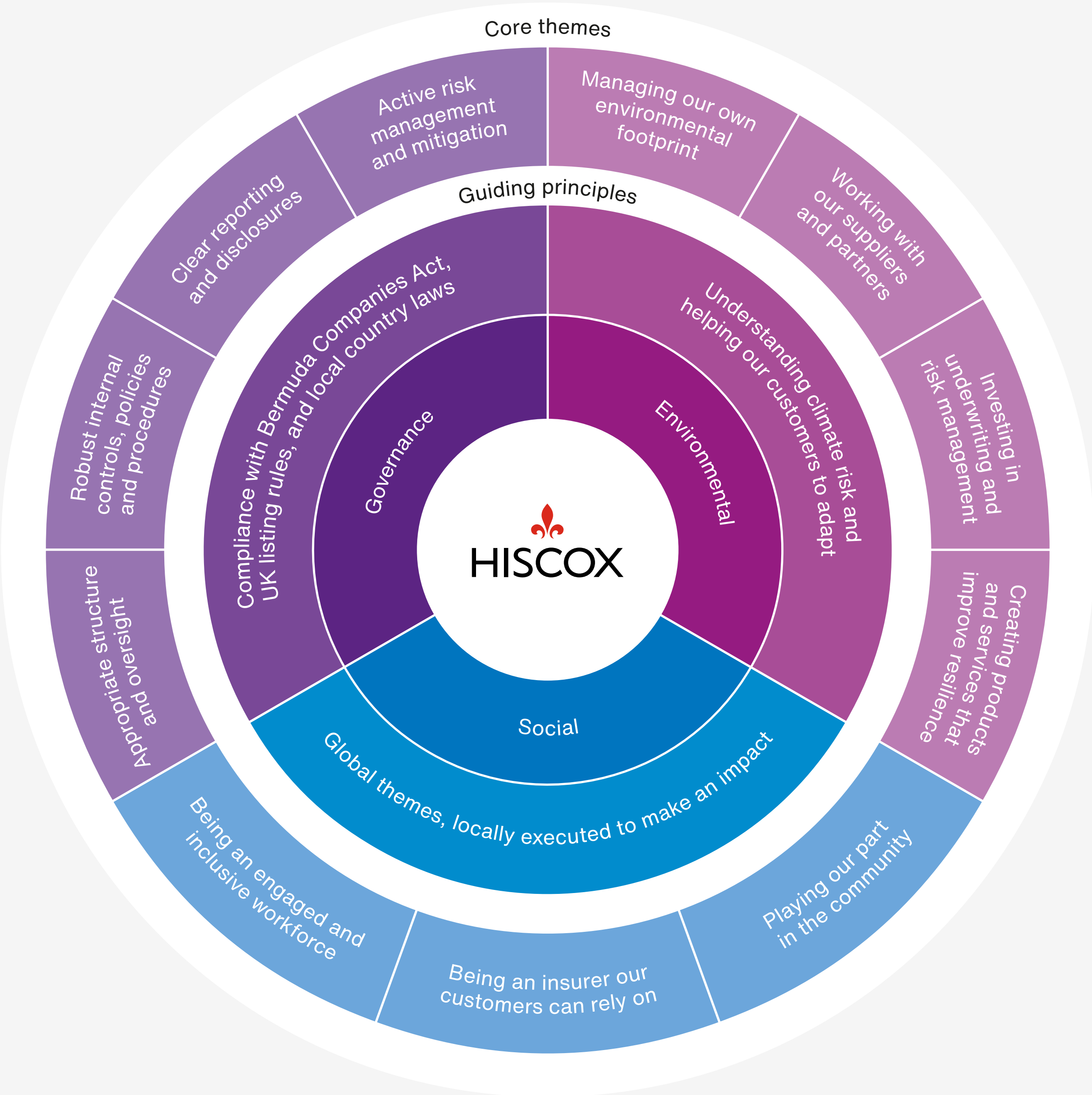
Introduced new wildfire risk modelling, which has increased our understanding of the risk and helped us to set more accurate premiums.

Reduced carbon emissions

Reduced our Scope 1 and 2 carbon emissions per full-time equivalent (FTE) by 1% year-on-year.

Hiscox ESG framework

The Hiscox ESG framework developed in 2019 articulates our ESG strategy, including our approach to climate-related issues. It sets out the principles that guide us, and also the themes that are important to us. ESG issues touch many different parts of our business – HR, risk, finance, underwriting, research and insight, and investments, to name a few – but our ESG framework keeps us consistent and helps us to maintain a pragmatic approach. We work together under common themes, but we tailor our work for local market relevance.



Our approach to climate issues

As experts in risk, our purpose is to give people and businesses the confidence to realise their ambitions. Climate change presents a major challenge to that. We take that challenge very seriously, because, as a global insurer and reinsurer, whose customers range from individuals to businesses of all shapes and sizes, including other insurers, almost every part of our business is affected by climate-related risks.

This is why we are helping our customers and business partners to adapt through our products and services, and why we are evolving as regulatory obligations and external expectations change. It is also why we are a signatory to the Paris Agreement, which advocates collective action to limit global warming to less than 2˚C above pre-industrial levels this century.

The principal climate-related risks affecting insurers can be divided into three areas:

Physical risk
Higher claims are likely to result from more frequent and more intense natural catastrophes, such as floods and storms, due to climate change. These claims will not only come from damage to property but also from other knock-on effects, such as global supply chain disruption or scarce resources.

Transition risk
These are the financial risks which could arise from the transition to a lower-carbon economy, such as a slump in the price of carbon-intensive financial assets. Insurers may also need to adapt to other potential impacts, such as reductions in insurance premiums in carbon-intensive sectors.

Liability risk
Those who have suffered loss from climate change might then seek to recover those losses from others who they believe may have been responsible. Where such claims are successful, those parties against whom the claims are made may seek to pass on some, or all, of the cost to insurance firms through policies such as professional indemnity or directors' and officers insurance.

While in the long term as a property casualty insurer, Hiscox is certainly exposed to a myriad of climate risks, our view is that our exposures can be managed through time as a result of how we conduct our business. In contrast to many financial services businesses, we rarely commit to multi-year exposures. The vast majority of our underwriting contracts are annual in nature and thus can be revised frequently.

The overwhelming share of our investment portfolio is very liquid and can be adjusted constantly. This flexibility is our key tool for managing the multi-decade challenge of climate risks holistically.

Our approach is guided by the ESG framework we developed in 2019. ESG issues touch many different parts of our business, and so our 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 want to understand climate risk and help the global community to adapt to climate change by:

- doing what we can to reduce the environmental footprint of our operations;
- taking climate-related risks into account in how we underwrite and invest;
- conducting or participating in research to increase our understanding of climate-related risks;
- working with our customers, brokers and other key stakeholders to help them to better understand climate-related risks and opportunities and how to respond to them;
- creating products and services that improve resilience to the effects of climate change;
- reporting on our progress on managing ESG issues, of which climate-related issues play an important part.

How we do things is as important as what we do when it comes to climate-related risks and opportunities, and our 3,400 employees all have a crucial part to play in that. Our efforts are led by our ESG Executive Sponsor for the Group and supported by established structures and processes that ensure appropriate oversight of ESG issues, up to and including Board level.

Hiscox values

We do business according to our core values: they are the compass points that navigate our way. We refreshed these in 2019 to include two new values; ownership and connected. Ownership appeals to our passion, commerciality and accountability, while connected encapsulates our belief that together we can build something better. This includes working with our customers, stakeholders, industry and communities to create a cleaner world for everyone.

Being a responsible business matters to us, but we recognise that we cannot achieve lasting change on our own. That is why we work closely with other organisations to help shape and inform national and international climate policy, to promote greater understanding of climate-related risks and opportunities, and to encourage economies and communities to become more resilient to climate change. We work with the following:

- The Association of British Insurers (ABI). Hiscox is a member of the ABI, the trade body representing the UK's insurance sector. Its members account for over 90% of the UK insurance market, and our Chief Executive, Bronek Masojada, is an ABI board member. The ABI contributes to public policy debates, publishes research reports and promotes high standards of service and conduct.
- ClimateWise. Hiscox is a founding member of this global insurance industry network, which helps the industry to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap – the growing divide between the climate-related losses that are insured and those that are not. The TCFD-aligned ClimateWise Principles provide a framework for insurers to set out how they are responding to climate change, while the annual public review of members' responses helps inform the public on what the industry is doing about climate-related risks and opportunities. It also commissions research. We currently sit on the ClimateWise working group and in the CISL Insurance Advisory Council.
- LightHill Research Network. This organisation provides the insurance industry with access to the latest academic research into risk, while also enabling the scientific community to interact with insurers. Hiscox is a member of the network's steering group.
- Lloyd's of London. Hiscox has its roots in Lloyd's, and we remain an important part of this specialist insurance and reinsurance market. The Lloyd's Corporation, among its other functions, provides world-leading original research, reports and analysis on developing global risks. Our Chairman, Robert Childs, is Deputy Chairman of Lloyd's, and others employees are involved in numerous Lloyd's working groups and committees. Hiscox is also a member of the Lloyd's Disaster Risk Facility (DRF), launched in 2015 so the Lloyd's market could assist disaster-struck countries with relief financing. It is now a consortium of seven Lloyd's Syndicates, pooling resources of as much as $445 million.

Recent climate-related disclosures

How we perform on ESG issues is measured both internally – through the KPIs we set – and externally via ESG indices which rate and benchmark us against our peers and other industries.

We participated in a number of independent, global ESG indices in 2019-20:

CDP DRIVING SUSTAINABLE ECONOMIES

2019: C grade
2018: C grade

ClimateWise Insuring a sustainable future

2019: 46%*
2018: 74%
*Change of methodology in 2019

Dow Jones Sustainability Indexes

2019: 31/100
First year of participation

FTSE4Good

2019: 4.2/5
2018: 3.9/5

SUSTAINALYTICS

2020: 25.6
2019: 28.0

Principle 1
Be accountable

Understanding the risks and opportunities to our business as a result of climate change is critical to our ongoing success, and the structures and processes we have in place ensure they are managed appropriately, up to and including at Board level, with progress publicly reported annually.

Principle 1.1
Ensure that the organisation's board is working to incorporate the Principles into business strategy and has oversight of climate risks and opportunities

Our continued success depends on how well we understand and manage the biggest risks to our business – and those linked to climate change are among the most significant. That is why Hiscox has created an effective governance structure, with robust and rigorous processes for identifying, measuring, monitoring, managing and reporting risks across the Group.

The Board is at the heart of risk governance and is responsible for setting the Group's risk strategy and appetite, as well as overseeing risk management. Climate-related risks, among other major exposures, are monitored and measured both within our business units and at Group level, so we understand how much overall risk we take and what is being done to manage it. We look at how different risks interact and whether these may result in correlations or concentrations of exposure.

In 2019, we updated the roles and accountability of senior managers within our UK business units to include climate-related risks, in line with the PRA's recommendations in its Supervisory Statement on how banks and insurers should manage their climate-related financial risks. Under the PRA Supervisory Statement 33/19, insurance company boards are required to 'understand and assess the financial risks from climate change that affect the firm, and to be able to address and oversee these risks within the firm's overall business strategy and risk appetite'.

As a result, our Group CEO and Hiscox Retail CEO have been appointed SMFs with responsibility for climate change on our relevant UK boards. As such, they are responsible for ensuring physical, transition and liability risks arising from climate change, and their potential impacts, are considered over a range of business planning timeframes.

Also in 2019, we developed the Hiscox ESG framework to help keep us focused and ensure our decisions and actions have the most impact (see page 3).

Our ESG Executive Sponsor is Mike Krefta, CEO of Hiscox Re & ILS and an Executive Committee member. His role involves overseeing ESG issues at the Executive Committee as well as providing updates to the Board. Mike also helps to inform and educate our different business units across the Group about our climate change approach and the climate-related risks and opportunities facing our business through a series of 'ESG roadshows' throughout the year.

ESG oversight in the business

Hiscox Ltd Board
- Discusses ESG twice-yearly.
- Provides challenge and approval of key ESG matters.

Executive Committee
- Sets strategy and reviews plans and progress quarterly.

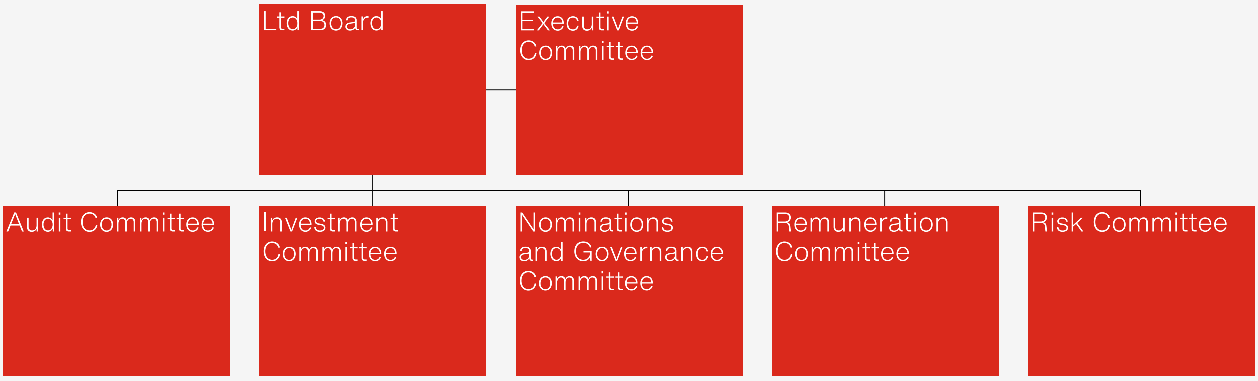
ESG working group
- Chaired by ESG Executive Sponsor.
- Meets monthly.
- Includes representatives from underwriting, investments, risk and corporate affairs.

Areas of discussion in 2019-20

In 2019, the Board and the Executive Committee committed to twice-yearly updates and discussions on climate-related issues. During 2019-20, these sessions have covered:
- an overview of our current approach to ESG issues including climate change;
- approval of the Hiscox ESG framework, which guides all ESG-related activity including climate-related activity;
- appointment of members of the relevant UK boards with responsibility for climate-related risks and opportunities, in accordance with the PRA's Senior Managers and Certification Regime (SMCR);
- assessing our underwriting exposures to key sectors, the creation of a climate change steering group, and the appointment of a new climate change research role;
- updates on ESG reporting, our participation in indices such as CDP, ClimateWise and FTSE4Good, and our contribution to the Dow Jones Sustainability Index for the first time in 2019;
- development of our first responsible investment policy;
- defining a set of metrics and targets we will use to track our progress on climate change activity, and then ESG more broadly.

Board and committee structure

The Board meets at least four times each year, and to help it better manage the business it appoints and authorises a number of committees to oversee different aspects of the Group's operations. Each committee is run a Board member, who reports directly to the Board.



Monitoring and managing risk

It is predominantly our Risk Committee who assesses the climate-related risks and opportunities facing us and advises the Board on how best to manage the Group's risk profile by reviewing the effectiveness of risk management activities and monitoring the Group's actual risk exposure. The Risk Committee relies on frequent updates from within the business and from independent risk experts.

This includes updates from our Grey Swan Group and Exposure Management Forums, which monitor and manage emerging risks. Climate change is considered to be an emerging risk as it could have a material impact on the Group. It could materially alter the frequency and severity of weather events such as storms and flooding, however it could also present an opportunity.

Technology will be a dependency, to ensure the right modelling and data is available to support our pricing and exposure. As losses increase, the benefits of having the right level of insurance should become clearer, which could also encourage customers to focus on quality of cover and service rather than cost. We consider the various impacts climate change could have on our risk profile, including transition risks impacting the loss experience of those risks currently within our appetite. The financial impact on investments is another potential impact. A range of activities are already underway to help the Group respond to the changes posed by climate change (see Principle 3).

The Risk Committee also oversees the risk management framework, development and operational implementation of Hiscox's risk management policies and procedures, and advises the Board on how best to manage the Group's risk profile.

Stress testing and scenario analysis

We maintain a regular cycle of stress testing and scenario analysis to ensure we manage risk well and evolve at the same pace as the risks we cover. We have embedded an internal programme of stress testing, which is performed annually to assess the resilience of the business plan in extreme, adverse scenarios. We are also a long-standing participant in the biennial General Insurance Stress Test (GIST) which is facilitated by the UK's Prudential Regulation Authority.

In 2019, their stress test required us to examine for the first time the impact of a climate-related event, alongside the traditional scenarios such as a deterioration in the economic environment, thereby demonstrating the risks of climate change on our business for the first time. Three scenarios stressed our exposure:

- a sudden collapse in asset values for firms seen to be at-risk to negative climate change exposure (e.g. coal/oil/aviation/mining);
- reaching 2100 within the temperature levels stated in the Paris Agreement (i.e. less than 2°C rise relative to pre-industrial levels);
- reaching 2100 in a hot-house scenario (i.e. 5°C rise relative to pre-industrial levels).

Completing the exercise required firms to consider the consequences of each scenario; the impact to the business model (including quantified impacts to balance sheet and a breakdown of gross losses by line of business and coverage) the impact to capital, reinsurance recoveries and potential management actions that could be taken following the event. Pleasingly, the PRA's testing confirmed our ability to withstand the specified climate-related shocks.

Group policies
We have a range of policies that hold us to account when it comes to environmental and related matters, some of which are set out below.

Environmental policy	Our environmental policy outlines our approach to managing the environmental impact of our business activities and those that arise from our ownership and occupation of office premises. We actively manage and aim to minimise our environmental impacts, due to the resources we consume and the amount of waste our activities produce, as well as complying with relevant environmental legislation and other requirements such as the ClimateWise Principles.
Health and safety policy	Our health and safety policy helps ensure we provide a work environment and work activities that ensure the health, safety and welfare of all our employees and those who are affected by our operations across all Hiscox Group activities and locations.
Modern slavery statement	Hiscox complies with the provisions of the Modern Slavery Act. Our modern slavery statement outlines our zero-tolerance approach to slavery or human trafficking in our supply chains or in any part of our business. We also demonstrate practical support of this through our work to support Comision Unidos vs. Trata (The Commission United Against Trafficking), a Mexican charity supporting victims of human trafficking in Mexico and the Americas. The Commission was founded in Mexico in 2012 by Rosi Orozco, a former Mexican Congresswoman and outspoken campaigner against human trafficking, and was established with a vision to end human trafficking, with a primary focus on the sexual exploitation of young girls. The Commission works in collaboration with more than 100 NGOs around the world, including from Mexico, the USA, Canada, Colombia, Spain, Argentina and the UK, to advocate for legislative change to hold accountable traffickers, intermediaries and consumers involved in sexual exploitation. It also focuses on the decriminalisation, protection and restoration of victims through the provision of support services, accommodation and education programmes, and runs the only residential restoration home for boys in the Americas. Hiscox has worked with The Commission since 2017.
Respect for human rights	We do not maintain a stand-alone human rights policy, but are guided by the principles of the UN's Universal Declaration of Human Rights and the International Labour Organisation's core labour standards.

Principle 1.2
Management's role in assessing and managing climate-related issues

As outlined earlier, Mike Krefta is the Group's Executive Sponsor for ESG and as such he plays an important role in ensuring Board and Executive Committee oversight of ESG issues. He is also a trustee of the Hiscox Foundation, trustee of our charitable foundation, the Hiscox Foundation, whose work is outlined in our impact report on page 50. Beyond the Board, and Mike's representation of ESG on the Executive Committee, climate-related issues are considered through our risk management structure and at a business unit level.

Our approach to risk management
The Group's success depends on how well we understand and manage our exposures across key risk types. These consist of strategic risk, insurance (underwriting and reserve) risk, market risk, credit risk, operational risk and regulatory, legal and tax risks. Climate-related risk is covered within these criteria.

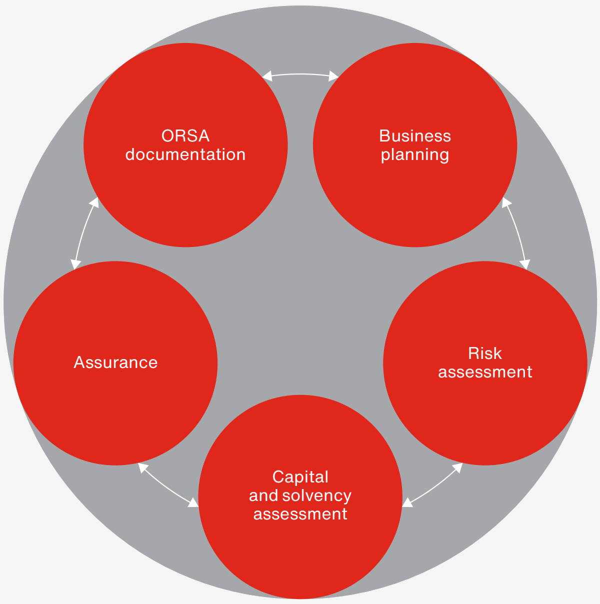
Our risk management framework operates as a continuous process that is embedded in the Group's culture, supported by a central risk team which is led by our Group Chief Risk Officer, which reports directly to the Risk Committee of the Board, with matters escalated to the Ltd Board as necessary.

The risk team monitors and reviews the risk profile and the effectiveness of our risk management activities, including compliance with, and recommendations for any changes to, our defined risk strategy and risk appetite. In turn, the central risk team is supported by several Group-wide and local forums focusing on specific risk types.

Once we have assessed our risks through the risk management framework and through our Own Risk and solvency assessment (ORSA) framework, we manage them through a combination of the following:
- a diversified portfolio;
- a clearly defined risk appetite;
- underwriting discipline based on sound decisions aligned with the Group's overall strategic objectives and risk appetite;
- tailored modelling resources;
- stress and scenario testing;
- mitigation of the effect of catastrophes and unexpected concentrations in risk through reinsurance.

Risk management framework

Hiscox Own Risk and Solvency Assessment (ORSA) framework



Three lines of defence model

First line of defence
Owns risk and controls

Responsible for ownership and management of risks on a day-to-day basis. Consists of everyone at every level in the organisation, as all have responsibility for risk management at an operational level.

Second line of defence
Assesses, challenges and advises on risk objectively

Provides independent oversight, challenge and support to the first line of defence. Includes the Group risk team and the compliance team.

Third line of defence
Provides independent assurance of risk control

Provides independent assurance to the Board that risk control is being managed in line with approved policies, appetite, frameworks and processes, and helps verify that the system of internal control is effective. Consists of the internal audit function.

Catastrophic and systemic insurance losses from damage caused by a range of catastrophes, including events such as typhoons, wildfires, hurricanes and earthquakes, are identified as significant enough to be considered principal risks to the business. In fact, some of our most significant future disaster scenarios are based on natural catastrophe events – see section 2.2, and specifically page 20.

Beyond the Board, committees and the risk team
Business areas potentially impacted by (or with a vested interest in) climate issues – such as risk modelling, risk management, communications, marketing, Group investments and property services – work collaboratively on some climate-related activity, such as proxy report responses (6 and Principle 6.1), but are responsible for integrating climate-related matters into their work and escalating issues to an appropriate level of management. An example of how this risk integration creates results for both Hiscox and our customers can be seen in our work to boost flood insurance solutions and customer access to them in the UK and USA. More information on this is included on pages 52 and 54.

The Group's success depends on how well we understand and manage our exposures across key risk types. These consist of strategic risk, insurance (underwriting and reserve) risk, market risk, credit risk, operational risk and regulatory, legal and tax risks. Climate-related risk is covered within these criteria.

Principle 1

Our ambitions

Performance against our 2019-20 ambitions

Status	Ambition	Update
Complete	To review and refine some of our existing policies, and to develop new policies where appropriate for the business.	We have maintained a cycle of policy refreshes and updates, and the development of new policies. During 2019-20, this work included publishing an information security policy statement on the Hiscox Group website and completing policy refreshes on a number of existing policies – including 13 of our risk management policies, our Group outsourcing policy, conflicts of interest framework and policy, and our financial crime strategy.
Ongoing	To develop a code of conduct for the Group.	The development of a code of conduct for the Group is underway, with further work expected during 2020-21.

Our 2020-21 ambitions

Embed new climate change steering group across the Group, to ensure their activity around exploring and assessing climate-related risks feeds into the ESG working group and is shared with the Executive Committee and Board.

Finalise ESG dashboard, which will be used to provide consistent metrics for reviewing our progress on ESG issues including climate-related issues.

Publish climate change positioning paper on the Hiscox Group website, to publicly outline how we think about and are responding to climate change.

Case study
Addressing new climate scenarios in our 2019 stress testing and scenario analysis

Maintaining a regular cycle of stress testing and scenario analysis is important to ensure we manage risk well and evolve at the same pace as the risks we cover. We have embedded an internal programme of stress testing, which is performed annually to assess the resilience of the business plan in extreme, adverse scenarios. In 2019, a key part of this was the biennial General Insurance Stress Test (GIST) which was facilitated by the UK's Prudential Regulation Authority and which we participated in alongside many of our peers.

This year's scenario required us to examine for the first time the impact of a climate related event, alongside the traditional scenarios such as a deterioration in the economic environment. The following scenarios stressed our exposure; a sudden collapse in asset values for firms seen to be at-risk to negative climate change exposure, reaching 2100 within the temperature levels stated in the Paris Agreement, and reaching 2100 in a hot-house scenario. For each scenario, we examined the impact to our business model, the impact on capital, potential reinsurance recoveries and potential management actions that could be taken following the event. Pleasingly, the PRA's testing confirmed our ability to withstand these specific climate-related shocks as well as the importance of the strong controls and mitigation strategies we have in place across risk types.

Principle 2
Incorporate climate-related issues into our strategies and investments

As an insurer, our priority has to be to bring useful products to market and to have the ability to pay claims when the worst happens. An awareness and integration of climate-related risks into our strategies and investments is therefore essential to achieving that.

Principle 2.1
Evaluate the implications of climate change for business performance (including investments) and key stakeholders

As a global insurer, we have a responsibility to – and are of interest to – a range of stakeholders. This includes not only our investors and our investment managers, which are discussed in detail below, but also our employees, customers, suppliers and business partners, analysts, regulators and the media. Our work with employees is discussed in more detail in Principle 4.4 and on page 22, with customers in sections 6.1 and 6.2, with (and through) the media in section 6.1, and with regulators on page 14 and in section 5.1.

You may also like to refer to the chart on page 20 which show how we evaluate the potential impact of natural catastrophes, which has climate implications, and to sections 3.1 and 6.2 where we discuss our growing portfolio of flood products around the Group in response to the challenges arising from the changing nature of natural catastrophes including the climate-related impact on natural catastrophes. The carbon footprint of our business is also of relevance here, and more information on that can be found in section 4.2.

Looking at investments then, the Hiscox investment team oversaw financial assets and cash totalling $6.7 billion as at 31 December 2019, investing in bonds, cash and equities on behalf of the Hiscox Group.

Our approach in investments
We maintain a relatively small in-house investment team, all of which have ESG integration into our investment practices as a personal objective to be reviewed annually. Located in London, the team is led by the Chief Investment Officer (CIO), who has overall responsibility for investment strategy and manager selection. Our CIO is charged with optimising Hiscox's investment portfolio in line with its policies and targets. Our approach to investment is referenced on page 23 of our 2019 Report and Accounts. The priority for the investment portfolio is always to provide liquidity to pay claims and capital to support the business, and a conservative stance ensures that we remain in a good position to fulfil both roles.

The secondary objective is to maximise our investment result in the prevailing market conditions subject to a prudent risk appetite. Hiscox outsources the management of the Group's investment assets to a range of specialist third-party fund management experts and investment managers, who deal with securities and stock selection on a day-to-day basis and manage the investment risks on our behalf.

However, the investment team retain the primary fiduciary duty to protect and enhance the value of our assets. This includes understanding and protecting against the investment risks resulting from climate change.

Along with much of the insurance industry, our approach to including climate change in our investment decisions continues to evolve. We are guided by our responsible investment policy, which sets out our broader approach to ESG issues.

Our investment team directs its third-party managers to evaluate all risks that are pertinent to the return and risk of its assets. There are a multitude of risks that could affect our investments, and climate change affects a number of these directly or indirectly. Its effects are included within the risks that our investment managers are expected to review and manage.

Combining the expertise of the in-house investment team with the input of our fund managers ensures we make decisions on investments and climate-related risks in a pragmatic, practical and useful way. Investment partners are selected based on performance, process, people and reputation. We expect transparency, sustainable business practices and good governance in the companies that manage our assets. As good business practice, Hiscox expects its asset managers to invest in companies that have sound ESG practices.

Organisations that understand and successfully manage material ESG factors and associated risks and opportunities tend to create more resilient, higher-quality businesses and assets, and are therefore better positioned to deliver sustainable outcomes over the long term. Those companies that do not have such controls are considered less suitable for investment.

We believe that ESG factors can have an impact on risk and returns across asset classes, sectors, geographical regions and companies, and should therefore be integrated into the investment process. Hiscox's asset managers are expected to have apprised themselves of the Hiscox ESG framework and the Hiscox values, with a view to reflecting them in our investment activities as far as possible.

Regular reporting and annual reviews of, and engagement with, external managers on their ESG approaches helps to ensure that the applicable ESG integration methodologies represent best practice and are consistently applied.

Our portfolio profile

The majority of Hiscox's investments are in short-dated bonds (79% at the end of 2019) with a smaller proportion in cash (14.1%), and the smallest in equity type funds (risk assets 6.9%).

Where bonds are issued by companies, Hiscox is one of many investors and bond holders do not generally have a vote. We also recognise that short-to-medium term bond investments have low, direct correlations with the longer-term issues of climate change risk. However we believe that ESG issues should still be a key consideration in the evaluation of the credit risk of each issuer, including the sustainability of issuers' cash flow generation ability and their susceptibility to shorter term ESG risks, including reputation and litigation risks.

Moreover, as primary bond issues provide essential short-to-medium-term financing to businesses, bond investors such as us can have a meaningful, active engagement approach with issuers. Where possible, we expect our investment managers to engage with portfolio companies on our behalf.

Although it is harder for asset owners to influence ESG issues for government bonds, we expect our managers to understand ESG threats and opportunities across all securities in which they invest on our behalf.

On the risk asset side, Hiscox invests in equities indirectly through commingled funds. When selecting funds, ESG factors are considered as part of the research process – for example, fund management companies' ESG approaches are scrutinised alongside more traditional risk and return factors.

We see the impact of climate change through our insurance business and have significant expertise in this area. On the asset side, we choose to invest assets to support our ability to underwrite risks, including risks associated with climate change, to the best of our ability and generate strong returns for our shareholders.

Hiscox does not have a blanket ban on investing in climate-impacting companies or a positive bias to investing in low carbon technologies. Instead, we adopt an intelligent approach, taking into account risks including climate change, to make smart investment decisions as climate change has more of an impact on the world economy. Hiscox therefore maintains a robust balance sheet to support individuals, companies and institutions when they are most in need.

2020 review of our investment managers and portfolios

We review our investment managers and portfolios each year. In line with our 2019-20 ambitions, this included an assessment of their ESG policies. This consisted of reviews of ESG policies and other statements or documents produced by the managers regarding climate and impact-related matters. The assessment of ESG policies and processes will now be included as part of our annual reviews going forward.

All of our investment managers have a strong focus on good governance in the companies in which they invest. This has been part of their investment processes for many years, meaning the 'G' in ESG has been a long-term theme of our investments. In recent years, managers have been developing their approach to add research relating to the environmental and social aspects of ESG investing. Our managers have now embedded ESG factors into their everyday research and risk processes, seeing ESG factors as return enhancing and/or risk reducing.

We expect all our investment managers to sign up to organisations and principles which demonstrate their commitment to ESG, and so we are pleased that this is the case for all of our investment managers. All but one of our investment managers are signed up to the Principles for Responsible Investment (PRI), and the one manager who is not a PRI signatory instead chose to engage with comparable entities, the International Finance Corporation (IFC) and the International Labour Organisation (ILO).

Hiscox directs its external asset managers to implement ESG filters that effectively exclude investments that would contravene the human rights, labour, environment and anti-corruption principles of the United Nations Global Compact.

Where Hiscox has direct control over portfolios, some exclusions are applied, for example controversial weapons. Where Hiscox invests in pooled funds and has no direct control over portfolios, any desired exclusions are shared with the investment manager and they are requested to apply them if possible.

While certain industries are clearly exposed to climate and long-term investment risks, individual company exposures are not clearly defined and are not static. We expect our managers to engage with companies on Hiscox's behalf, with a view to improving ESG standards by changing corporate behaviour to minimise both climate and investment risks.

Board oversight of our investments
While professional investment partners manage the day-to-day investment risks on Hiscox's behalf, our in-house investment team maintains a strategic view of investment risk. Any significant findings are raised to the Investment Committee of the Board. This Committee has responsibility for oversight of the Group's investments and comprises Board members, including the Chief Executive and Chief Financial Officer. When appropriate, it will consider the findings of other Board Committees and incorporate these into future investment strategy. More information on the Board and Committee structure can be found in section 1.1.

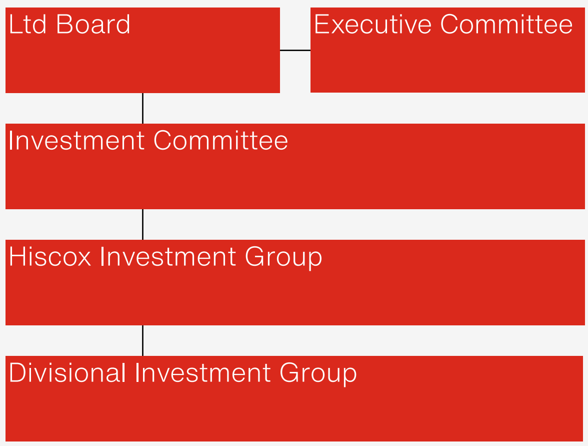
Any significant risks are fed into the risk management process via the central risk team. Risks are added to the risk and control register and assessed alongside other business risks. See section 1.1 and 1.2 for more details of our risk management process. One example of an investment risk related to climate change that is monitored is the creation of 'stranded assets', i.e. the value of investments will drop if they are within sectors that will suffer as a result of climate change or adaptation to climate change. This could be the oil and coal industries, which may be replaced with renewable energy over time.

2020 investment strategy review
In line with our 2019-20 ambitions, we have developed a responsible investment policy which has been presented to and discussed with the Ltd Board.

We have continued to build on our investments in commodity trade finance (CTF). This is an area where sustainability is key to the ongoing success of the investment given the focus is mainly on agricultural commodities. It is an area where investment can be directed to have positive impacts on the environment and local communities. Our investment managers in CTF have a strong ESG focus and produce impact reporting.

We also continue to work with expert investment management firms, who have sound ESG practices to integrate consideration of ESG issues in their investment processes. In 2020, we retendered our bond investment mandates, and the ESG capabilities of the managers was a material factor in the selection criteria, along with the level of ongoing assistance they can offer Hiscox around the monitoring and management of ESG issues across our portfolios.

Board oversight of our investments



Hiscox does not have a blanket ban on investing in climate-impacting companies or a positive bias to investing in low carbon technologies. Instead, we adopt an intelligent approach, taking into account risks including climate change, to make smart investment decisions as climate change has more of an impact on the world economy.

Principle 2

Our approach to staff pension funds

Hiscox has two pension arrangements – a closed final salary scheme and a Group personal pension plan. Under the former, trustees are responsible for investment decisions and under the latter, it falls to individual members.

The pension trustees believe that good stewardship and ESG issues may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. The trustees meet with each manager on an annual basis and also annually ask the managers to provide a written report on their approach to ESG issues.

Members of the Group personal pension plan have access to an ethical UK equity fund. The fund is managed by BMO and invests only in assets which meet the fund's pre-defined ethical screening criteria. Information about this fund is readily available to staff in the scheme booklet and online. If employees wish to consider changing their pension investment arrangements, tools are available online to help guide their choices. Reference to the availability of an ethical fund is also made during staff pension presentations which take place at least once a year.

Principle 2.2
Measure and disclose the implications of climate-related issues for business performance (including investments) and key stakeholders

As a (re)insurer with exposure to losses arising from natural catastrophes – including climate-related natural catastrophes – it is imperative that we consider these implications for our business. In 2019, for example, we reserved $165 million for claims arising from Japanese Typhoons Faxai and Hagibis, and Hurricane Dorian which impacted the Bahamas and the USA.

A key consideration for our business is to identify potentially catastrophic and systemic insurance losses from damage caused by a range of catastrophes, including natural events such as hurricanes and earthquakes, which could be significant enough to be considered principal risks to the business. It is why we publish our expectations for specific modelled losses twice a year during our half-year and full-year results presentations to the market (see page 20).

These are presented to analysts and investors and made available to customers and other interested parties via our website. Some of our most significant future disaster scenarios are based on natural catastrophe events.

We also measure and disclose the impact of our business operations, either ourselves or through independent global ESG indices. More information on this can be found on page 6 and in section 6.1.

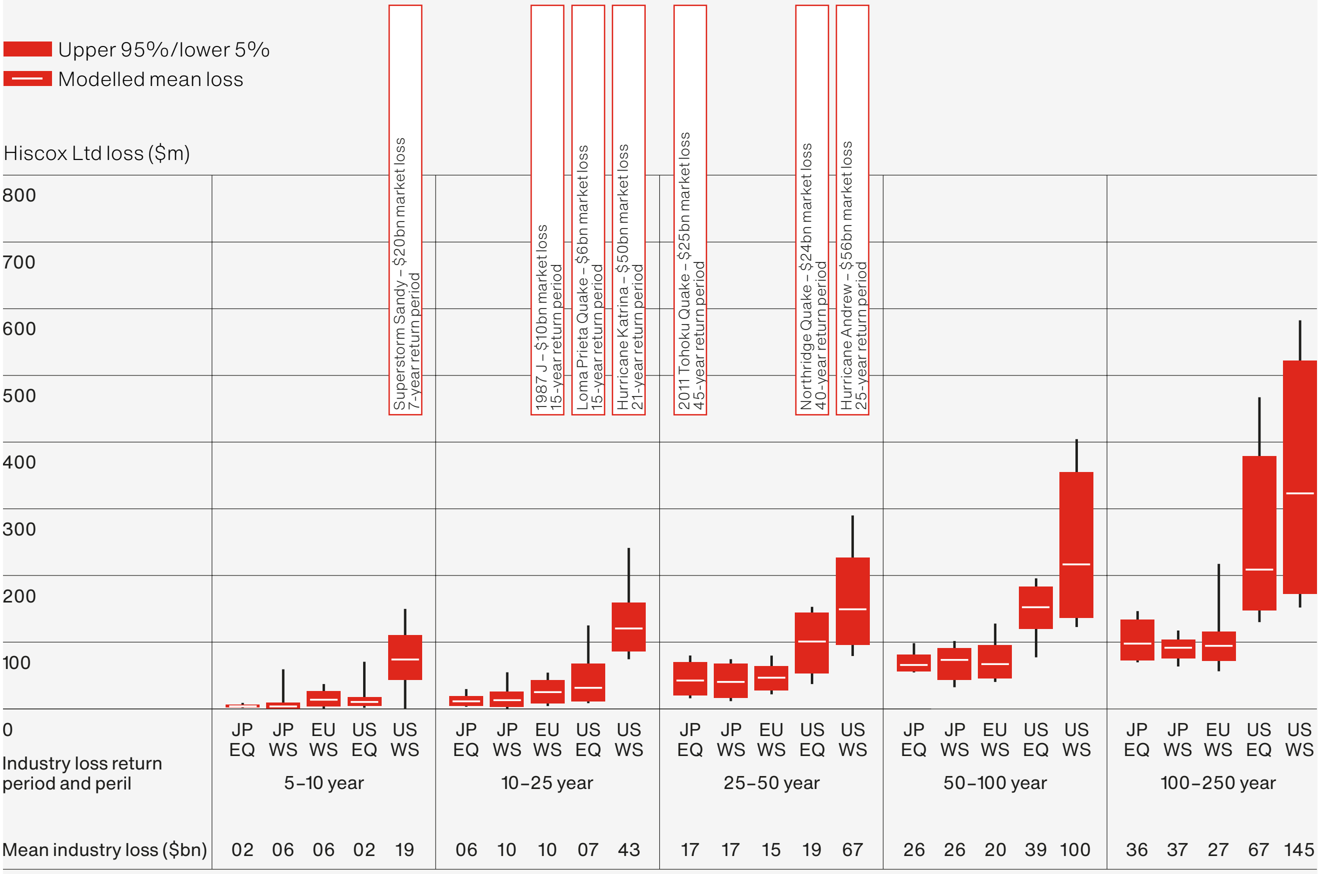
Principle 2.3
Incorporate the material outcomes of climate risk scenarios into business (and investment) decision-making

With every natural catastrophe event that occurs, we learn more about the climate-related risks that our business is exposed to. Work is undertaken by our strategy, catastrophe modelling and underwriting teams to refine our modelling and underwriting approach as appropriate, and example(s) of this are outlined further in section 3.1.

In addition, every two years one of our UK regulators, the Prudential Regulation Authority (PRA), conducts a general insurance market stress test which we participate in alongside many of our peers. We participated in 2019, when the stress test included, for the first time, a climate change element (see page 14). In line with our 2019-20 ambitions, the lessons learnt from this event were fed back into the business to further boost our climate risk preparedness.

Property extreme loss scenarios
January 2020

Boxplot and whisker diagram of Hiscox Ltd net loss ($m) for certain modelled losses. As part of our risk management and catastrophe modelling practices, we regularly assess our exposure to a range of property and casualty extreme loss scenarios. This chart shows a modelled range of net loss that the Group might expect from any one catastrophe event, and is updated and published twice-yearly.



This chart shows a modelled range of net loss the Group might expect from any one catastrophe event. The white line between the bars depicts the modelled mean loss.

The return period is the frequency at which an industry insured loss of a certain amount or greater is likely to occur. For example, an event with a return period of 20 years would be expected to occur on average five times in 100 years.

JP EQ – Japanese earthquake, JP WS – Japanese windstorm, EU WS – European windstorm, US EQ – United States earthquake, US WS – United States windstorm.

Our ambitions

Performance against our 2019-20 ambitions

Status	Ambition	Update
Complete	To further review the ESG policies of our investment managers.	We have completed a further review of the ESG policies of our investment managers and made this an embedded annual process going forward.
Ongoing	To develop a responsible investment policy.	We have developed a responsible investment policy which has been presented to and discussed with the Ltd Board, and will be published during the second half of 2020.
Complete	To participate in the PRA 2019 stress test which includes a climate change element, integrating learnings from the stress test back into the business, and to continue to refine our own in-house developed stress and scenario testing.	We participated in the PRA 2019 stress test and the lessons learnt from this have gone on to inform our business planning and further boost our climate risk preparedness.

Our 2020-21 ambitions

Investment team to complete specific ESG training.
Undertake our annual review of the ESG capabilities of our investment managers, using a more robust ESG assessment framework, and report back on the assessment to the relevant Boards and committees.
Complete a retender of all bond mandates, with the inclusion of specific ESG criteria in manager selection.
Continue to develop portfolio metrics with a view to better evaluating ESG issues, including its current carbon footprint.
Complete an annual review of our responsible investment policy.

Case study
Working as a team to improve our local environments

Our employees are involved in a number of environmentally responsible initiatives around the world. For example, in Bermuda we work with Keep Bermuda Beautiful, the island's oldest environmental charity. Through their Adopt an Area initiative, which gives individuals or teams responsibility for a specific piece of the island, Hiscox has its own designated area to take care of, so our Bermuda team work together to hold regular beach clean-ups.

Another example is our work with The Felix Project, which aims to improve sustainability by rescuing edible food waste and delivering it free to people suffering hunger and food poverty via charities and schools. For every £1 raised, The Felix Project is able to save £5 worth of nutritious food, and during the COVID-19 pandemic Hiscox made an additional one-off donation of £16,000 over and above our usual fundraising efforts – enough to provide 91,300 meals to people from London's most vulnerable communities via schools, emergency food hubs, food banks, social kitchens and other community organisations.

Some of our Bermuda team taking part in a local beach clean-up.

Principle 3
Lead in the identification, understanding and management of climate risk

Hiscox underwrites physical exposures susceptible to natural perils, which means it is crucial we understand as much as possible about climate risks and integrate consideration of these risks across our business activities.

Hiscox has a strong culture of successfully using climate risk modelling to aid our assessment of current and future risks, and as a key contributor to our business strategy. We conduct our own internal research, and support external research, on climate, weather and catastrophe patterns.

These findings are shared both internally and through our long-standing collaborations with other organisations, and incorporated into our business activities – with a large part of our pricing, capital, reserving and reinsurance models being underpinned by our catastrophe research and modelling activities, in addition to customer and claims data.

Principle 3.1
Ensure processes for identifying, assessing and managing climate-related risks and opportunities are integrated within the organisation

In our environmental policy we commit that 'we will invest in research to better understand the risks associated with climate change and changing weather patterns and incorporate the results into our insurance products and services'. Examples of climate-related events and phenomena which generate potential risks for our business include:

- potential changes in frequency and severity distribution of tropical cyclones (especially in the North Atlantic and Northwestern Pacific basins);
- the changing nature of flood risk;
- an increase in wildfire frequency and size;
- potential changes to the path and the geographical distribution of European winter storms;
- changing characteristics of severe convective storms.

Catastrophe risk models quantify risk by calculating the hazard (using factors such as wind speed, ground motion or water depth), defining the portfolio of assets involved (building types, value and contents), calculating the damage (to buildings, contents, business continuity, etc.), applying financial structures (deductibles, reinsurance layers) and finally estimating the loss (to insurers and reinsurers).

In order to identify and manage business risks, we have developed a risk management framework, which we regularly review and refine in light of the changing risk environment and evolving best practice on risk management.

Our risk management framework is designed to oversee a culture of innovative and prudent underwriting. More information on our risk management structure and processes can be found in sections 1.1 and 1.2.

In addition, natural catastrophe risk is reviewed at least quarterly by the Natural Catastrophe Exposure Management Group, which is led by the Director of Underwriting Risk and Reinsurance and comprises senior representatives of the catastrophe modelling team, members from each business area, the risk team, and the Chief Underwriting Officers from across the Group.

This group looks in detail at the latest information on natural catastrophes and recommends, based on the latest observations and scientific knowledge, which model(s) should be used for each peril, and how they should be adapted, if necessary, to reflect our best view of the risk. They also identify new areas of risk research, and while we accept that all theoretical research outcomes and models of climate-related risks may be uncertain, we aim to minimise these effects through good management and careful analysis. All changes to modelling policy and all of our research prioritisations and results are signed off and authorised by this group, decisions are recorded, and models are adapted to reflect policy.

Their work not only enables us to continuously refine our models (using data to make better decisions); it also supports future product development. For example, we have calibrated and delivered a loss model that will improve our pricing capabilities for FloodPlus. We also included the use of additional model sources for location-level pricing. In addition, we are working with data providers to augment FloodPlus with first floor elevation data, and are exploring the use of machine learning to augment the information we receive from vendor flood hazard maps. Both activities are still in progress, as flood remains an important area of focus for the business, and work on this will continue in 2020-21.

2019 natural catastrophe activity

Natural catastrophe activity in 2019 included Typhoons Faxai and Hagibis in Japan, Hurricane Dorian in the Caribbean, and record bushfires in Australia. We reserved $165 million for Typhoons Faxai and Hagibis, and Hurricane Dorian. Each new event provides us with a valuable new data point to update the Hiscox View of Risk (HVOR). Ongoing enhancement of the HVOR, and the natural evolution of our modelling approach, is necessary if we are to not only maintain but also improve underwriting performance within our natural catastrophe exposed business.

For example, in previous years we have updated the HVOR to adapt to claims volumes surrounding 2017's Hurricane Irma in particular, taking into account new legislation in Florida to improve flood hazard identification in Federal Emergency Management Agency (FEMA) maps. Further work involved a careful review of the potential impact of social inflation on recent losses, and the potential COVID-19 impacts on all perils. The active 2018 and 2019 typhoon seasons in Japan – with four large loss events in the form of typhoons Jebi, Trami, Faxai and Hagibis – have also enabled us to review our view of risk of the Asian typhoon peril. Information gathered from recent events has enabled us to revisit our understanding of the physical characteristics of the storms, review model performance and study the potential impact of climate change on the peril, in order to update the HVOR.

Tailoring the Hiscox approach to risk

The activity of the Natural Catastrophe Exposure Management Group enables us to develop the HVOR. This is constructed through a complex combination of the results of our own research, comparison with actual loss data, multiple factor analysis, use of multiple vendor modelling systems, incorporation of conservatism in areas where we believe the models could be deficient and adjustments to take account of new scientific understanding and new regulatory requirements, with the aim of generating an optimal model of real-world risk. The HVOR defines the most significant climate change-related risks and attempts to account for the latest scientific understanding of climate change. Priorities for study in 2019-20 included hurricane wind risk (including social inflation considerations), typhoon wind risk, US flood and US wildfire.

For example, we have worked to quantify the impact of climate change on Asian typhoon and US wildfire perils, in order to understand recent major events in the context of a changing climate. The Hiscox governance process ensures that underwriter decisions are checked for compliance with our latest policy.

Real-world claims data is monitored, and results fed back into the system to close the loop and continue to improve accuracy.

In 2020, we plan to expand the team through the creation of a new climate change research role which will further our understanding of the emerging threats and opportunities arising from climate change. This role will contribute to the HVOR development from a climate change perspective, and also to business and portfolio insights from a risk management perspective.

We are also establishing a new Climate Change Steering Group (CCSG), which will feed into our ESG working group and aim to drive climate-related innovation in our underwriting, research and modelling.

How we use risk models

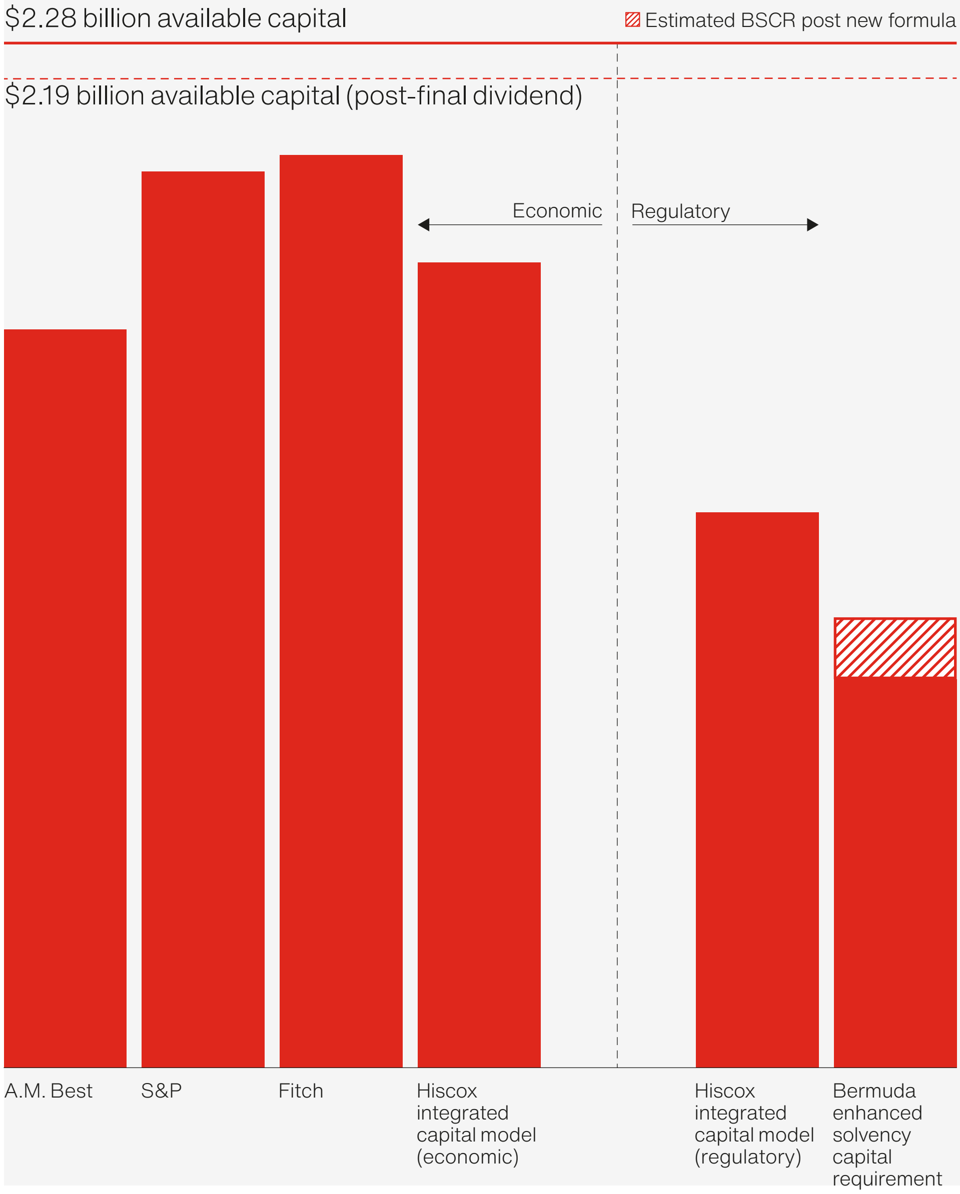
Hiscox licenses a number of different natural catastrophe risk models across the globe for a variety of peril regions. Our philosophy is that out-of-the-box models should only be used as a starting point when modelling the risk, and that careful thought should be put into understanding a model's application, shortcomings and applicability to our business. This procedure is followed for all out-of-the-box models, and the resource applied to this process matches the materiality of the model from a business point of view. We also blend alternative models together, using factors reflecting our overall judgements of the adjusted model quality.

Using results to inform pricing, capital and reserving

The composite result of all this research into climate-related risks, as expressed in the HVOR, sends a direct signal to our underwriters about insurance pricing. As the adaptations agreed by the Natural Catastrophe Exposure Management Group are used to update the actual models that the underwriters use, so pricing guidance changes in order to inform their work and becomes an important factor in their decisions on what insurance they can offer, and at what price. Most recently this has included our work on the view of risk for US hurricane – driven by 2017's Hurricane Irma specifically – and the HVOR we have developed for US wildfire, which is based on careful analysis of available vendor models.

Projected capital requirement
January 2020

We closely monitor our Group solvency position and publish twice-yearly updates to demonstrate how our projected capital requirements meet both the needs of the business and the expectations of regulators and rating agencies.



Rating agency assessments shown are internal Hiscox assessments of the agency capital requirements on the basis of year end 2019 results. Hiscox uses the internally developed Hiscox integrated capital model to assess its own capital needs on both a trading (economic) and purely regulatory basis. All capital requirements have been normalised with respect to variations in the allowable capital in each assessment for comparison to a consistent available capital figure. The available capital figure comprises net tangible assets and subordinated debt.

Reserving risk
We make 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. If insufficient reserves were put aside to cover our exposures, this could affect the Group's future earnings and capital. When underwriting risks, we estimate both the likelihood of claims occurring and their cost. Our actual claims experience could exceed our expectations, requiring us to increase our levels of reserves held.

The provisions we make to pay claims reflect our own experience and the industry's view of similar business. They are also influenced by loss payments, pending levels of unpaid claims, historic trends in reserving patterns and potential changes in rates arising from market or economic conditions. Provisions are set above the actuarial best estimate to reduce the risk that actual claims may exceed the amount we have set aside.

Our provision estimates are subject to rigorous controls and review by all areas of the business, as well as by independent actuaries. The relevant Boards approve the amount of the final provision, on the recommendation of dedicated reserving committees. We exercise prudence when it comes to claims reserving because, as with many matters in insurance, uncertainties remain. This approach is evident in our 2019 reserve releases of $25.9 million (2018: $326.5 million) from prior years. We seek to reserve cautiously and our reserves are set at 9.4% above actuarial estimates (2018: 11.0%).

Capital management
Hiscox analyses current levels of risk across the portfolio, compares this to our tightly defined appetite for risk and manages the risk through a combination of reinsurance purchase or by holding an appropriate amount of capital. The Board monitors the capital strength of the Group and ensures its insurance carriers are suitably capitalised for regulatory and ratings purposes, taking into account future needs including growth where opportunities arise.

The Group monitors its capital requirements based on both external risk measures, set by regulators and the rating agencies, and its own internal guidelines of risk appetite and compares this with available capital. We held $2.28 billion of available capital at 31 December 2019.

As the ability of the Group to attract business, particularly reinsurance, is dependent upon the maintenance of appropriate financial strength ratings from the leading rating agencies (including A.M. Best, S&P and Fitch) and as each of these measures capital adequacy, good capital management is essential.

Our calculation of required capital includes an assessment of catastrophe risk and, as the largest driver of our capital is underwriting risk, the accuracy of our models is critical. Ongoing research into the risks linked to climate change posed by flooding and hurricanes feeds back into these models, which influence capital management decisions.

Also, as a Bermudia-registered holding company, the Bermuda Monetary Authority (BMA) regulator requires the Group to monitor its Group solvency capital and determine the minimum capital required to remain solvent throughout the year. We are required to publish a financial condition report (FCR), which sets out details of the measures governing the business operations, corporate governance framework, solvency and financial performance of the Group. The FCR is also intended to provide additional information about the Group's business model, enabling the public to make an informed assessment on whether the business is run in a prudent manner.

More information on our approach to risk management, pricing, capital and reserving can be found in our 2019 Report and Accounts (with a particular focus on risk management on pages 28-31, capital on pages 26-27 and reserving on page 60).

Tackling climate change through our products, services and partnerships

Improving the availability of flood insurance
Since 2016 we have done a lot of work on US flood and this focus continued in 2019-20. FloodPlus is a specific flood product that Hiscox launched in 2016 for US homeowners and we expanded our offering with FloodPlus Commercial for small commercial businesses in 2018.

FloodPlus has been well received since its launch, showing a clear need in the US market for broader, more competitively priced coverage than the NFIP while offering an easier purchasing mechanism and better claims process.

In addition we have formed a flood consortium which helps ensure the long-term sustainability of our private flood products, and have also established the capability to offer FloodPlus as an endorsement to a Lloyd's underwritten homeowner's policy in the USA, which should again make it easier and more cost effective for customers to access flood cover.

We will continue to review and refine our approach to US flood and may develop more products in time. Promotion of our flood products will also remain a focus and in 2020-21 we will look to build on the success we had with the innovative virtual reality event we hosted in 2019 to raise awareness of the flood risk to brokers and customers. More information on this can be found on page 54 and 6.2.

Contributing to natural catastrophe disaster relief
We are also proud of our participation in the Caribbean Catastrophe Risk Insurance Facility (CCRIF) which was designed as a regional catastrophe fund for Caribbean governments, to limit the financial impact of devastating hurricanes and earthquakes by quickly providing financial liquidity when a policy is triggered. The most important part of the scheme is that losses are paid quickly after the disasters happen, which is when governments need the funds the most. By supporting the CCRIF, Hiscox is contributing to help developing countries close the insurance gap.

Insuring sustainable ventures
Through our reinsurance business we offer protection to farmers around the globe, by partnering with local insurers, governments and reinsurers to provide indemnity for damage to their crops resulting from climate-related perils. In Hiscox London Market, the energy underwriting team has also committed capacity to a number of projects focused on renewable energy generation, including cutting-edge onshore and offshore wind, and solar power.

Avoiding landfill for waste arising from claims
As part of our ambition to reduce the climate impact of claims settlement, we work with AnyJunk in the UK to take away the waste arising from claims. AnyJunk uses smart technology to partner with local waste collection companies to provide a low carbon footprint and environmentally responsible clearance service for bulky waste. This means that rubbish removed from our UK property claims, such as those affected by flood or fire, will not go to landfill. In 2019, AnyJunk collected 186,000kg of rubbish resulting from Hiscox claims, 94.7% of which was reused or recycled.

Reducing undetected water usage
We work with HomeServe to offer LeakBot to our UK home buildings insurance customers, a device that monitors water usage and acts as an early warning leak detector. For more information, see the case study on page 30.

In 2020, we plan to expand the team through the creation of a new climate change research role which will further our understanding of the emerging threats and opportunities arising from climate change. This role will contribute to the HVOR development from a climate change perspective, and also to business and portfolio insights from a risk management perspective.

Principle 3

Principle 3.2
Support and undertake research and development to inform current business strategies on adapting and mitigating climate-related issues

We support and undertake a range of research and development work to help inform our current business strategies when it comes to climate change.

In section 2, we outline how we do this from an investment perspective.

In section 3.1, there are examples of how we use each new natural catastrophe event to evolve our current thinking of climate-related risks to our business.

In section 5.2, you can find more information on how we work with external partners – including but not limited to the LightHill Research Network – to further our understanding of climate-related issues.

Our ambitions

Performance against our 2019-20 ambitions

Status	Ambition	Update
Complete	Build on our existing LeakBot partnership by providing the device to all of our UK buildings insurance policyholders.	We have expanded our existing LeakBot partnership during 2019-20 and have now shared almost 2,000 devices with UK home insurance customers.
Complete	To host a virtual reality event at WSIA (a key US insurance industry event) as part of our work to raise awareness of the US flood risk.	We hosted a very successful virtual reality event at WSIA, which focused on raising awareness of the flood risk to brokers and customers, and was attended by over 120 people.

Our 2020-21 ambitions

To appoint and establish our new climate change research role.

To define the purpose and role of the new Climate Change Steering Group (CCSG).

Case study
Helping homeowners conserve water through new UK partnership

In 2019, Hiscox became the first insurer to offer a leakbot device to all its buildings insurance customers in mainland UK. LeakBot is a 'black box' that can tell if you have a suspected water leak in your home and alert you by mobile phone and email. We also cover the cost of one engineer visit per year, including labour and basic parts, to fix any problems that do arise.

The number – and cost – of household water leaks has jumped in recent years. Insurance claims from water leaks hit a record high in 2018, with insurers paying out nearly £3 billion on 'escape of water' claims alone, according to the ABI: around £8 million a day. These claims have become a major driver in the cost of home insurance as well as a growing environmental concern, with water set to become an increasingly precious commodity. We each consume an average of 140 litres of water each day, but experts predict that needs to reduce by 30% or more over the next 50 years to guarantee the UK's ability to ensure cheap, resilient and environmentally sustainable water supplies, in the face of an estimated population increase of ten million people and the prospect of increasing numbers of droughts due to climate change. We need to use water more efficiently and reducing water leaks will play an important part in controlling household water consumption. So far, Hiscox has provided devices to almost 2,000 of its customers, around 15% of whom have had alerts of possible leaks.

Principle 4
Reduce the environmental impact of our business

As part of our commitment to be a good corporate citizen, we carefully manage our environmental impact and work with our customers, suppliers and business partners to help them adapt to the changing climate.

Principle 4.1
Encourage our suppliers to improve the environmental sustainability of their products and services, and understand the implications these have on our business

To achieve our ambition to continually reduce our environmental impact it is important we have the committed support of everyone involved in our business, including our employees, contractors, suppliers, investors and customers. We expect our suppliers and contractors to follow best practices in sustainability and social responsibility, and we work with business partners that share our values.

Companies bidding for large contracts from us must prove they meet ISO standards, including for quality, environment and information security, as well as answer questions on their ethical, social, health and safety and data protection practices.

We have a Group procurement and vendor management team which helps our business to ensure they hire the best companies for the required task. Suppliers are scored on how well they align with Hiscox's values and policies, because we believe this positively influences them to improve their own environmental performance, by encouraging them to reduce their own emissions and waste.

We also make several commitments in our Group environmental policy about the resources and products we buy (see page 10 on policies). These include:
- minimising our climate change impacts by purchasing, where we can, energy from renewable sources;
- buying as many consumables as possible from sustainable sources;
- seeking to replace air conditioning gases with environmentally-friendlier alternatives;
- operating energy-efficient office equipment and communications systems;
- using our leverage to further best practices in sustainability and social responsibility, for example by investing in companies with sound environmental, social and governance practices.

We look to reduce our environmental impact in our everyday business life. For example, we're reducing paper consumption by issuing service providers at our offices with electronic copies of our environmental policies and e-work permits.

Also, we encourage all our suppliers to invoice us electronically, and the accounts payable department are in the process of going completely paper-free. Similarly, we encourage employees to book their travel and submit their expenses online to cut down on printing.

What are Scope 1, 2 and 3 carbon emissions?

Scope 1	Direct greenhouse gas (GHG) emissions from sources that are owned or controlled by the company, such as company cars or air conditioning leaks at company sites.
Scope 2	Indirect emissions from the generation of energy purchased and consumed by the company, including electricity, steam heating and cooling.
Scope 3	All other indirect GHG emissions that occur as a consequence of the company's activities e.g. emissions from business travel.

Principle 4.2
Scope 1 and Scope 2 GHG emissions and Scope 3 GHG emissions disclosures

We measure our global CO_2 emissions, which are independently verified by Carbon Footprint Limited, a business which also advises us on the biggest opportunities to reduce our carbon impact.

We have collected CO_2 emissions data for our UK site since 2010, and for all our global operations since 2013. In 2019, our total global carbon footprint was 11,505 tonnes CO_2e, compared with 7,269 in 2014. This is a 58% increase in absolute emissions since 2014, predominantly driven by the expansion of our business, which has grown from 1,800 employees in 2014 to 3,400 in 2019.

We are on track to meet our targets of reducing our Scope 1 and 2 carbon emissions per FTE by 20% compared to 2014. We reduced our Scope 1 and 2 carbon emissions per full-time equivalent (FTE) by 1% year-on-year in 2019. Total tonnes of CO_2e per full time equivalent (FTE) decreased from 1.20 in 2014 to 0.75 in 2019, a decrease of 37%.

However, reducing our Scope 1, 2 and 3 emissions by 15%, again compared to a 2014 baseline, has proven more challenging. Total tonnes of CO_2e per FTE for all scopes decreased from 3.68 in 2014 to 3.63 in 2019, a decrease of 1.4%, with business travel remaining the biggest contributor to our carbon emissions.

Our current GHG emissions reduction targets expire at the end of this year, so we are focused on setting new targets over a five to ten year horizon. We will consider how we align them to the Science Based Targets Initiative, which is emerging as the global standard.

Environmental action

Our employees support a range of environmental charities around the world. In Bermuda, where we are headquartered, we have long-standing partnerships with a number of groups:

- **Greenrock**, a charity helping to make Bermuda socially, economically and environmentally more sustainable through education, advocacy, a green building forum and local projects.
- **Bermuda Environmental Sustainability Taskforce**, an advocacy group which is engaging with the community to promote sustainable management and development of the island.
- **Reef Watch**, which is run by the Bermuda Zoological Society (BZS) and which monitors the ecological condition of Bermuda's coral reefs and fish stocks.
- BZS's **Kids on the Reef programme**, which teaches schoolchildren how to dive so they can appreciate Bermuda's coral reefs and understand its importance.
- **Keep Bermuda Beautiful**, a charity that works to eliminate litter on the island with the support of volunteers. Hiscox has a designated area of beach through the charity's Adopt an Area initiative.
- **Groundswell**, whose work aims to empower the general public to positively influence, support and take part in solutions to environmental issues.

Since 2008, we have used a third-party consultancy to assess, audit and compile data regarding our carbon footprint using nationally and internationally recognised standards:

- ISO 14064-3 greenhouse gases part 3: specification with guidance for the validation and verification of greenhouse gas assertions;
- The WRI/WBCSB GHG protocol;
- The Department for Environment, Food and Rural Affairs (Defra) 2013 corporate greenhouse gas reporting guidelines, which covers our UK business operations, using the government's conversion factors to produce activity data, such as distance travelled, litres of fuel used or tonnes of waste disposed.

In 2019-20, we have complied with UK government carbon reporting requirements for Scope 1 and 2 carbon emissions and also met the Energy Savings Opportunity Scheme (ESOS) Phase 2 requirements, having completed our ESOS Phase 2 submission.

Carbon neutral since 2014

We have been a carbon neutral business since 2014, and in 2019 we worked with the Capricorn Ridge Wind Farm in the US state of Texas to offset our Group 2018 carbon emissions of 9,198 tonnes CO_2e. The Capricorn Ridge Wind Farm is the first wind power project in the US to create Verified Carbon Standard (VCS) carbon credits.

The project is located in west central Texas in Coke County and comprises 75 1.5MW wind turbines with a total capacity of 112.5MW. The turbine towers each have three 77-metre diameter rotor blades. The 75 turbines are capable of producing enough clean, renewable electricity to power over 30,000 homes annually.

carbon footprint standard
Carbon Neutral Organisation

Wind energy displaces the need for traditional fossil fuel energy sources thereby reducing greenhouse gas emissions and climate change impact. The Capricorn Ridge Wind Farm also provides local economic benefits in the form of an expanded local tax base and landowner lease payments. Proceeds from the sale of carbon offsets provide the financial incentive for clean energy projects such as the Capricorn Ridge Wind Farm to reach development and fund initial operational costs.

In 2020, we have worked with a renewable energy project in India to offset our Group 2019 carbon emissions of 11,505 tonnes CO_2e. Over the years, we have supported a range of offset projects around the world – including tree planting in the Great Rift Valley, and a safe water programme in Western Kenya.

Principle 4.3
Measure and seek to reduce the environmental impacts of the internal operations and physical assets under our control

In addition to the carbon emissions that we measure (see section 4.2) we also assess and seek to reduce our water usage and waste. Our water data increased from 17,509m^3 in 2018 to 19,837m^3 in 2019. In terms of waste, we generated 72 tonnes in 2019 compared with 117 tonnes in 2018 and 85% of the waste we generated was recycled. Facilities management is one of our critical supplier partnerships and in 2019 we changed our facilities management provider and agreed to:

- switch 80% of Hiscox's cleaning products to be chemical free, by utilising ionized water to clean workspaces. This not only keeps hazardous chemicals out of the environment, it is also proved to kill bacteria and viruses quicker and reduces our single use plastic consumption;
- provide smarter analytics for energy usage for building systems such as air conditioning, heating, electric and water usage. This not only allows us to measure how efficient the estate is but also where opportunities lie, thanks to close building metering, system integration, building asset optimisation and automation of processes.

Travel

Hiscox has a travel policy which discourages non-essential business travel and the use of alternatives where possible. However, as an international business, we engage in unavoidable travel, particularly as the regulatory environment of the insurance industry means that some business should be conducted in person. As we continue to succeed in reducing our emissions from other business activities, travel becomes more dominant in our emissions – accounting for 75% of our total global emissions in 2019.

We are committed to reducing the impact of travel and continue to make significant investments in alternatives to travel, including use of video conferencing and our internal communications platform, Hiscom. In light of the COVID-19 global pandemic, like other businesses we have experienced a sudden decline in business travel in 2020 which has helped to accelerate more widespread use of video conferencing and other communications channels.

Clean City Awards Scheme

In London, we once again passed our assessment for the Clean City Awards Scheme (CCAS), which looks to improve sustainability in the City of London by promoting better waste management among businesses based in the Square Mile. The scheme helps to encourage best practice on minimising waste through increased recycling and reuse, while also providing a forum for members to exchange ideas on how to be more environmentally friendly.

Our approach in action

We have worked closely with Wilson Vale, the catering firm that runs our York office staff restaurant, to implement a wide range of green initiatives that lighten their, and our, environmental footprint. This has resulted in a number of environmental benefits:

- we have saved on average 13,500 pieces of single use plastic each year since we replaced plastic cutlery and straws with wood and paper in June 2018;
- we also removed all plastic bottles from our shelves, saving around 3,672 bottles each year;
- all cooking oil is completely recycled. In 2019, 784 litres were recycled, creating enough bio fuel to drive from York to the North Pole;
- we have saved an average of 3,000 plastic-coated sugar sachets each year since switching to sugar cubes in 2019;
- we now use sustainably sourced fish and seafood and 'unpopular' species to preserve fish biodiversity;
- we cook local seasonal produce to cut down on 'food miles' and use misshapen fruit and vegetables that would otherwise go to waste;
- all food waste goes to anaerobic digestion and gets recycled.

Local climate-related initiatives

Our offices around the world make their own decisions on how they can best reduce the overall energy we consume and the carbon we produce. We encourage them to do so, as we firmly believe that through a series of small local steps, our Group can take a leap forwards in reducing its carbon footprint. In 2019-20:

- solar panels on the roof of our building in York generated 10,264 KwH in electricity in 2019 – enough to power three homes for a year;
- we are moving to more energy efficient premises in London from 2021, and more information on this will be included in future climate reports;
- in Bermuda, we moved to new office premises which has a whole host of environmental benefits including bike stores to encourage cycling, whole bean coffee machines to eliminate plastic coffee pods, 'follow-me' printing to reduce unnecessary printing, timed lighting and air conditioning, and a living wall;
- new recycling processes in our York and London offices mean that less of our waste now goes to landfill. We already encourage employees to use reusable cups, but any disposable cups that are used are now recycled into new plastic tubing and park benches and high-quality paper products. We also collect our plastic milk bottle lids and drinks tops, and these go to high street store, Lush, for recycling (see page 39);
- also in the UK, we launched the Hiscox Cycle to Work Scheme, enabling eligible employees to purchase a bicycle and related equipment via salary sacrifice, making income tax and National Insurance savings at the same time as reducing their environmental impact and improving their physical and mental health. So far, 10% of eligible employees are benefitting from this;
- in the USA, we are phasing out drinks vending machines in our offices in favour of Bevi smart water dispensers, which have so far saved an estimated 40,000 single-use bottles and cans;
- in Dublin, employees are encouraged to cycle to work and we have secure storage at our office for their bikes. There is a beehive on the roof of the building, eco-friendly motion-sensitive lighting throughout the office and recycling points for a range of materials, including packaging and batteries;
- in Belgium, there is a zero plastic cups policy, and comprehensive paper recycling.

Food for thought

In our London and York offices, where almost 1,200 of our employees work, our catering teams work hard to reduce our carbon footprint by reusing or recycling as much waste and leftover food as they can.

Less waste	Our Art Café in London uses as much of it's ingredients as they can, including trimmings, to make stock. They take pride in having very little food remaining at the end of service, and work with OLIO, a food sharing initiative, to redistribute leftover food our café can't use. In February 2020 alone, this resulted in 193 portions of food shared with others, meaning 39kg of food was saved while 169 kg of CO_2 was diverted.
Meat-free Mondays	The start of every week is 'meat-free Monday', in which diners are offered a range of plant-based meals. This is our way to engage with employees on the environmental effects of eating too much meat; if everyone had one meat-free day each week it would lead to a reduction in greenhouse gas emissions that would equate to taking 240 million cars off the road.
Recycling	Our scheme to recycle cups has resulted in 274kg (equivalent to around 23,000 cups) being recycled since November 2019, while our work with Bio-Bean to recycle used coffee grounds has led to 2,275kg of waste coffee being turned into fuel and fertiliser since 2019.
Surplus food	In London, we also support The Felix Project, which aims to tackle food waste and address hunger by redistributing surplus food that cannot be sold to charities and schools, so they can provide healthy meals to society's most vulnerable people. For every £1 we raised, The Felix Project was able to save £5-worth of nutritious food.

Principle 4.4
Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate informed choices outside work

We take our role in the world seriously and doing the right thing is important to us. Our environmental policy encourages everyone who works for us to become better aware of environmental issues and to take positive action in their own communities to help reduce climate change.

Hiscox Green Teams
We are embedding a network of country-specific green teams across the Group to help us make positive environmental changes, with teams in the UK and Bermuda already having an impact. Their work has resulted in practical actions being taken to improve office recycling practices, reduce single use plastics and promote climate informed choices both inside and outside of work. For example, in our York office we gave every member of staff a Hiscox-branded reusable shopping bag, which was well received, and in London we campaigned to encourage employees to use reusable mugs for drinks in the office rather than the disposable cups provided.

Internal communications and events
We raise environmental issues and share news with our employees via email, at events and through our employee intranet, Hiscom, and in 2019 we used World Environment Day to celebrate the good work in this area already happening around the Group. Our Bermuda team also hold 'green tea' events, where a climate issue is presented and debate and discussion around it is then encouraged.

Ways of working
We continue to invest in and promote alternative ways of work. For example, in London, Hiscox has moved all our London-based claims team to a flexible office environment focussed on 'functional use' with more efficient office utilisation, while other teams such as risk, compliance and internal audit have moved to hot desking to maximise use of our London-based desks.

We continue significant investment in more energy efficient hardware and our adoption of cloud computing which is also more energy efficient and supports employees working from any location. This investment has proven valuable in light of COVID-19 lockdown measures, when 95% of our 3,400 workforce worked remotely, and these measures are having a positive impact on cost and carbon through lower utilities usage per full-time equivalent (FTE).

HISCOX GIVES

Hiscox Green Team

In 2019 our employees raised over $1 million for more than 180 charities that are close to their hearts, and gave almost 2,000 hours to volunteering for good causes such as Keep Bermuda Beautiful's beach clean ups.

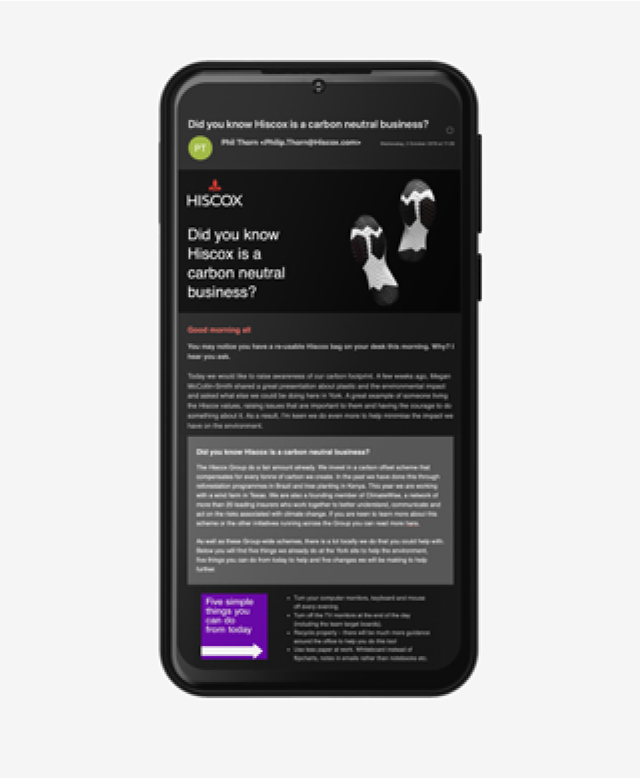
Principle 4

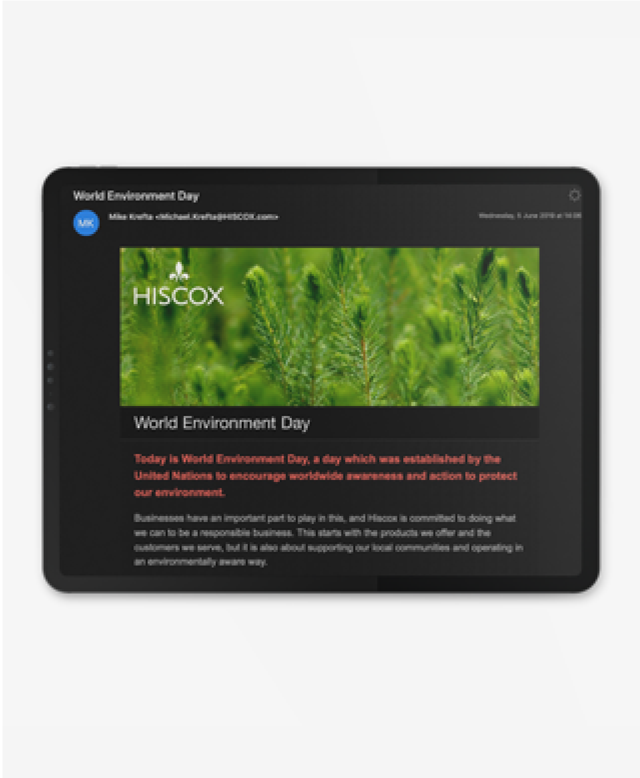
Charitable giving
Our employees also give their time and money generously to good causes including climate-related causes. In 2019 our employees raised over $1 million for more than 180 charities that are close to their hearts, and gave almost 2,000 hours to volunteering for good causes such as Keep Bermuda Beautiful's beach clean-ups. We also published our first impact report, which celebrates this and other examples of our employees' charitable work (see page 50).

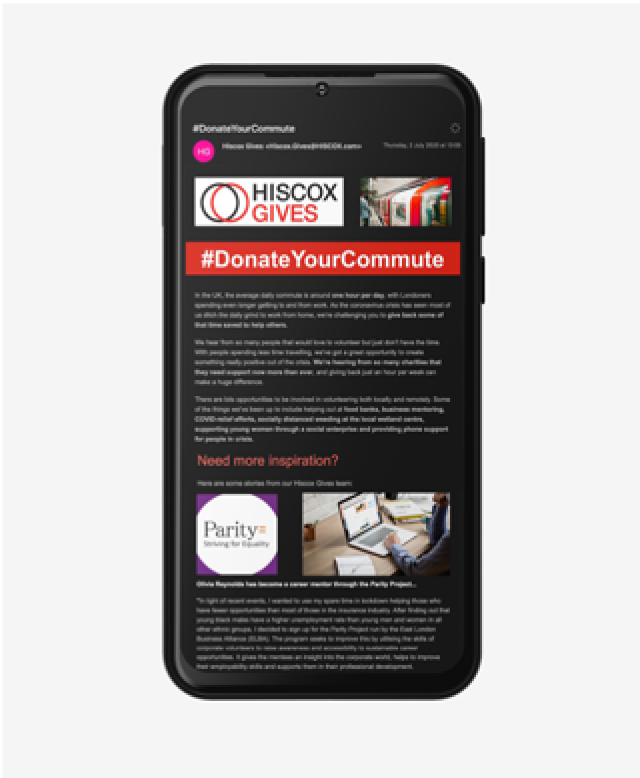
Ethical investing
We aim to be a responsible investor as well as an insurer, and our staff pension scheme includes the opportunity for employees to invest in green or ESG funds if they choose to. These are discussed with employees during regular pension presentations. More information on our pension funds can be found on page 19.

Internal communications

Some examples of how we have engaged our workforce on climate issues in 2019-2020.







Our ambitions

Performance against our 2019-20 ambitions

Status	Ambition	Update
Ongoing	To develop new carbon emission targets, aligned to the Science Based Target Initiative.	The development of new carbon emission targets is underway, with more work expected in 2020-21.
Complete	To produce an ESOS Phase II report, in line with the UK government's reporting requirements.	We submitted our ESOS Phase II report in 2019, in line with the UK government's reporting requirements.
Complete	To publish our first impact report to better illustrate the donations and volunteering work that is undertaken by our employees across the Group.	We published our first impact report in March 2020, which outlines that as a Group we gave over $1 million to almost 180 charities and completed almost 2,000 volunteering hours in 2019.

Our 2020-21 ambitions

- Finalise new carbon emission targets.
- Refine our approach to business travel, taking into account a post-COVID world.
- Publish a special edition 'COVID-19' impact report for 2020.
- Expand our network of country green teams.
- Collate and share stories from employees to showcase the environmentally positive changes they have made to their home life as a result of lockdown.

Case study
New recycling processes introduced in our largest UK offices

In 2019 we introduced new recycling processes in our York and London offices to ensure less of the waste we generate ends up in landfill. Although we encourage employees to use re-usable cups, where disposable cups are used they can now be recycled thanks to our partnership with a specialist company which turns the plastic elements into tubing or park benches, and the paper elements back into high quality paper and paper products. This has so far resulted in around 274kg – the equivalent of around 23,000 disposable cups – being recycled and repurposed. We also now collect our plastic milk bottle lids and drinks tops, which go to high street store Lush for recycling.

Principle 5
Inform public policy making

We work with policy makers and engage in public debate on climate change issues, both individually and as an active member of relevant industry bodies, particularly Lloyd's, the ABI and ClimateWise. We collaborate with other bodies because we recognise that we cannot change policy alone, but will have more influence working with others.

Principle 5.1
Promote and actively engage in public debate on climate-related issues and the need for action, working with policy makers to help them develop and maintain an economy that is resilient to climate risk

It has been another year of growing regulatory awareness that climate-related risks pose a threat not only to the stability of individual insurance companies but also as a systemic shock to the market. We are seeing this from our UK and European regulators in particular, and are proactively responding to the increased focus by embedding climate risk management within existing Group-wide risk and governance, incorporating climate-related issues into business strategy and reporting on material risks.

We are also developing tools and metrics to monitor exposure to this risk and explicitly considering physical, transitional and liability risks and their potential impacts over a range of business planning timeframes. We actively engage in the public debate on climate-related issues and the need for action on a local, regional, national and international level.

FCA consultation: New climate-related disclosures rule
In 2020, the FCA published a consultation paper proposing a new disclosure rule for accounting periods beginning on or after 1 January 2022 for companies with a UK premium listing. The rule requires companies to state in their annual financial reports whether they comply with TCFD and to explain any non-compliance. The proposals aim to promote good disclosures to the market, in either an annual financial report or other relevant document, and to enable investors to make informed choices. Given our disclosure against TCFD-aligned ClimateWise Principles, we are well positioned to comply with any such disclosure rule should it be brought into force.

European Commission sustainable finance proposals 2020
The European Commission proposed changes in June 2020 to EU regulation to incorporate sustainability concepts. The Commission is proposing to introduce obligations on firms to explicitly integrate sustainability factors across the business, including in risk management frameworks and product governance. This will have implications for our various obligations under Solvency II and Insurance Distribution Directive (IDD) regulations, for example requiring us to consider the ESG credentials of clients and our own products.

These changes will impact us via the European Insurance and Occupational Pensions Authority (EIOPA), whose sustainable finance action plan seeks to ensure that insurers manage and mitigate ESG risks – including climate-related risks – through their underwriting activity and adopt a sustainable approach to investments. We will continue to monitor the development of European plans and proposals and to comply with any resulting implementation requirements.

PRA action plan
Following on from the PRA's 2018 consultation on how to enhance banks' and insurers' approaches to managing the financial risks from climate change, the PRA became the first regulator in the world to publish supervisory expectations in April 2019 as to how banks and insurance companies develop an enhanced approach to managing the financial risks from climate change.

We welcomed the PRA's approach and in 2019 submitted an action plan to the PRA to address their expectations, particularly with regard to Board strategy and ownership of climate risk management. We have since embedded a strategic action plan for our UK boards that meets the requirements of the PRA and outlines how we will manage the multi-decadal challenge of climate risks holistically across the risk profile. Within this framework, each of the UK carriers has a dedicated senior manager with regulatory responsibilities under the SMCR regime for managing the financial risks from climate change. The wider boards' focus will be on the following areas:
- review of the proportion of portfolios and assets influenced by climate change;
- monitoring of climate risk through exposure management and emerging risk forums and to participate in industry forums and research;
- consideration of metrics to monitor physical and transition risks to enable management of climate risk and to identify business opportunities;
- consideration of longer term stress testing and scenario analysis;
- completion of the PRA biennial 2019 General Insurance Stress Test.

We will continue to evolve, refine and monitor our approach systematically through this framework and have committed to a cycle of regular Board reporting on progress.

FCA consultation: Climate change and green finance
In 2019, we responded to the FCA's consultation paper to further their understanding of climate change-related matters and the institutions that they regulate. In particular, the consultation paper considered the impact of climate risk on capital markets, the UK economy and the valuation of relevant products. We continue to assess these impacts on both the asset and liability sides of the business through centralised Group risk modelling, capital modelling and investment management. The potential impacts of climate risks, including factors reflecting their inherent uncertainty, are formally included in tools such as the capital model and catastrophe model (Hiscox view of risk) which in turn drive pricing, capital setting and key internal risk assessment and management tools used by the Board such as our own risk solvency assessment (ORSA) and stress and scenario testing – both of which this year included reference to physical and transition risks for the first time.

PRA and FCA Climate Financial Risk Forum (CFRF)
In 2019, the PRA and FCA established the CFRF, a joint initiative which seeks to build capacity and share best practice across the financial sector to advance the response to the financial risks from climate change. It brings together senior representatives from across the industry to develop practical tools and approaches that firms can adopt to address climate-related financial risks and implement forward-looking strategies. As a Lloyd's participant and an ABI member, we are represented within the forum and in February 2020 were chosen by the PRA and FCA to take part in a roundtable event where we provided industry insights to the outputs of the four CFRF working groups; disclosures; innovation; risk management and scenario analysis. We also contributed to draft versions of the workstream's output – a series of handbooks to provide practical guidance on responding to climate-related risks and opportunities. We will continue to seek to be actively involved and now await further requests for consultation and input.

PRA General Insurance Stress Test
We are also a long-standing participant in the PRA's biennial General Insurance Stress Test (GIST). These tests ask us to provide information to the PRA about the impact of a range of pre-defined stress tests on our business. At a sector level, our participation allows the PRA to assess market resilience. Taking part in the GIST gives us the opportunity to engage with the regulator to inform the development of a consistent and effective approach to climate-focused scenario analysis and policy by providing feedback on aspects of the exercise.

These tests support our internal annual cycle of stress testing and scenario analysis, and help to ensure we manage risk well and evolve at the same pace as the risks we cover.

In 2019, their stress test required us to examine for the first time the impact of a climate related event, alongside the traditional scenarios such as a deterioration in the economic environment, thereby demonstrating the risks of climate change on our business for the first time. Three scenarios stressed our exposure:
- a sudden collapse in asset values for firms seen to be at-risk to negative climate change exposure (e.g. coal/oil/aviation/mining);
- reaching 2100 within the temperature levels stated in the Paris Agreement (i.e. less than 2°C rise relative to pre-industrial levels);
- reaching 2100 in a hot-house scenario (i.e. 5°C rise relative to pre-industrial levels).

Completing the exercise required firms to consider the consequences of each scenario; the impact to the business model (including quantified impacts to balance sheet and a breakdown of gross losses by line of business and coverage), the impact to capital, reinsurance recoveries and potential management actions that could be taken following the event.

Pleasingly, the GIST exercise confirmed our ability to withstand these specified climate-related shocks. Current business stress testing confirms that the Group is able to withstand the considered short-term shocks and has strong controls and mitigation strategies in place across risk types, however the results of the GIST are informing our thinking on potential metrics to monitor the risks to our underwriting and investment portfolios going forward. We will continue to leverage our outputs from the GIST exercise by integrating lessons learnt back into the business and continuing to refine and enhance our own in-house developed scenarios to review the sensitivity of the portfolios to physical and transition climate risk over longer time periods.

Lloyd's Market Association (LMA) Chief Risk Officer Committee
Our Chief Risk Officer is a participant on the Lloyd's Market Association's Chief Risk Officer Committee. Their work includes climate change issues and the committee considers how Lloyd's is responding to and developing climate-related scenarios. While the committee's climate-related work is still at an early stage, we are pleased to play our part in helping to shape Lloyd's approach and thinking.

Lloyd's Vision Economics Project
Like others in our industry, we are looking at how underwriting practices adapt to recognise the transition to a low-carbon economy. We are took part in the Lloyd's Vision Economics Project to consider the priority sector categories and classes of business that this will impact and the industry's role in thought leadership within this space. This work includes the change in risk profile and fluctuations in market demand. During 2019-20, we contributed to working group sessions which informed the final 2020 Lloyd's paper on 'insurance for a low carbon economy', noting the industry response needed to the impacts of decarbonisation on production and competition, supply chains and customer interactions as well as litigation and liability. We will continue to consider how we embed these insights into the business, and to engage with the industry to drive innovation and realise the opportunities as well as the risks from climate change.

Task Force on Climate-related Financial Disclosures (TCFD)
A result of the Paris Agreement has been to place increasing pressure on financial institutions to manage climate risks (and opportunities) and publicly disclose them. The work of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) is leading in this space. The primary aim of the TCFD is to develop voluntary, consistent climate-related financial risk disclosures to enable companies to provide relevant information to investors, lenders, insurers, and other stakeholders. While we have informally considered the TCFD recommendations for some time, in 2019 we formally and publicly pledged our support for the TCFD recommendations, and we reported against the new TCFD-aligned ClimateWise Principles for the first time in our 2019 climate report.

Paris Agreement
Hiscox is a signatory of the landmark Paris Climate Agreement, which brings together nations for a common cause to combat climate change. It is through this pledge that we demonstrate our support for the goal to limit global warming temperature rises to less than two degrees Celsius.

The Munich Climate Insurance Initiative (MCII) and the United Nations Environment Programme Finance Initiative (UNEP FI)
Since 2013 Hiscox has endorsed a global insurance industry statement, sponsored by ClimateWise, the Munich Climate Insurance Initiative (MCII) and the United Nations Environment Programme Finance Initiative (UNEP FI): 'Building climate and disaster-resilient communities and economies: How the insurance industry and governments can work together more effectively'. This collaboration involves over 100 of the top insurers across the world.

It aims to facilitate climate and disaster resilient communities and economies and looks at how the insurance industry and governments can work together more effectively, agreeing to actions in the following key areas:
- decarbonisation leadership and supporting corresponding public sector decision-making;
- incentives to reduce climate-risk by promoting risk awareness, risk prevention and risk reduction solutions;
- where risks cannot be effectively reduced or retained, supporting the transfer and sharing of such risks through insurance mechanisms including risk pooling mechanisms;
- considering insurance industry responses to climate-related events for shaping the behaviours and decisions of governments, communities and businesses in managing climate risks.

It identifies a mutually dependent relationship between governments, society and the insurance industry and recognises that increased risks resulting from climate change and ecological degradation pose a shared risk to the insurance industry, governments and society. This provides a strong incentive for collaboration at each step along the insurance risk management value chain, and the statement is still available to view online.

Contributing to the public debate from a research and modelling perspective
We engage with public debate about climate change in a number of ways, from technical research and policy responses to reacting to world weather events. It is often discussed in press interviews and investor meetings, and key spokespeople on the subject also contribute to roundtables and other events. More information on this can be found in section 5.2, 6.1 and 6.2.

Principle 5.2
Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests

We publish our own insight and research where appropriate and participate in industry events and other collaborations to share what we have learnt. We also share climate-related insights and research with key stakeholders including our brokers and customers through articles and blogs, and more information on this activity from 2019-20 can be found in sections 6.1 and 6.2.

We have also continued to develop some of our long-standing external collaborations where we support the publication of climate-related research. We work with a wide variety of risk modelling vendors and/or data providers in the market, not only on an ongoing basis but also on specific projects. In 2019-20, specific projects have included developing the Hiscox view of risk for US hurricane, Japanese typhoon, European windstorm, US wildfire and US flood.

This work has also included examining the impact of specific phenomena, such as the impact of COVID-19 on catastrophe claims, and the impact of social inflation on all US catastrophe perils.

We also engage with the broking community, which has their own research and modelling expertise, and liaise with them on a regular basis to discuss various aspects of research, mostly related to climate risks.

In addition, we are proud of our association with the LightHill Research Network and continue to look at new meaningful ways we can collaborate with them. We already participate in the LightHill Research Network steering committee and liaise with them to encourage the sharing of expertise, and sponsor projects, for example updating data in open-source models. See section 6.2 for more information on research they have published which we have supported.

We also regularly contribute to relevant climate-related external events, some of which include media engagement, and in 2019 this included participating in the ILS Convergence Conference in Bermuda, where our Group Head of Catastrophe Research gave a talk on the prudent use of catastrophe models in the context of climate change.

We work with a wide variety of risk modelling vendors and/or data providers in the market, not only on an ongoing basis but also on specific projects. In 2019-20 specific projects have included developing the Hiscox View of Risk for US hurricane, Japanese typhoon, European windstorm, US wildfire and US flood.

Principle 5

Industry collaboration

Industry co-operation is an essential part of our business. We have worked with, are members of, or refer to:

Our ambitions

Performance against our 2019-20 ambitions

Status	Ambition	Update
Complete	To develop an action plan for our UK-regulated insurance entities, which addresses PRA expectations, particularly with regard to Board strategy and ownership of climate risk management.	An action plan for our UK regulated insurance entities is now in place, and our UK boards receive regular updates from their senior manager with responsibility for climate change.
Ongoing	To review our current integration of the TCFD principles in our business and identify and act on areas of improvement.	This work remains ongoing, however during 2019-20 we have been considering the TCFD principles and made changes to oversight and investments in particular. See Principles 1 and 2 for more information.
Complete	To contribute to one or more of the CFRF working groups.	We have contributed to CFRF roundtables to discuss the four CFRF workstreams and to the development of a series of handbooks, sharing best practice and building capacity across the financial sector.
Complete	To respond to the FCA consultation on climate change and green finance.	We responded to the FCA's consultation paper to further their understanding of climate change-related matters and the institutions that they regulate.

Our 2020-21 ambitions

Continue to evolve our PRA action plan for UK entities, with a focus on producing and publishing a set of metrics we will use to review our progress on ESG issues, starting with climate issues.

Cascade the PRA and FCA CFRF handbooks throughout the business, and find ways to adopt their practical guidance, where appropriate.

Case study
Joining forces with our partners to pilot climate accelerator programme

We work with NatWest Group on their Entrepreneur Accelerator Programme, the UK's largest fully-funded business accelerator network, with 12 physical hubs located throughout the country and which has supported over 22,000 entrepreneurs since 2018. As a programme partner, Hiscox helps to ensure entrepreneurs have considered all of their insurance needs through workshops, drop-in sessions, 1-2-1 consultations and online tools. During 2020, we have also supported the bank's Climate Accelerator Pilot, which is a part of NatWest Group's commitments around climate; their goal is to reserve at least 25% of the spaces in their accelerator hubs for businesses whose core offering supports sustainable environmental activities.

During the pilot, the entrepreneurs who have been identified as eligible for the Climate Accelerator will join climate specific workshops, networking events and group coaching sessions. As a Climate Accelerator Pilot partner, Hiscox contributes to these sessions with expertise and insight, and plays a part in creating new networks focussed on climate activities for participating entrepreneurs. This pilot launched in June 2020 and over 80 climate-focused businesses have been invited to take part.

Principle 6
Support climate awareness amongst our customers or clients

We communicate to our customers across the globe using a variety of methods to share our expertise and help inform their decisions about insurance cover for climate-related risks.

Principle 6.1
Communicating our beliefs and strategy on climate-related issues to our customers/clients

Our purpose is to help our customers manage their risks so they can fulfil their ambitions, whether that is to grow their business or simply to sleep safe at night. Our approach to climate-related issues is an important part of that purpose, and in this regard we are guided by the Hiscox ESG framework (see page 3). This strategy, along with proof points of our approach, are shared with customers and clients in a number of different ways.

Through the media
We contribute to the climate debate by publishing relevant insight and research – either our own or by working with others – and also through sharing news and views through the media. Our ESG Executive Sponsor has completed a number of interviews during 2019-20 to outline our climate related strategy, using the Hiscox ESG framework, and examples of these can be found on page 49.

Through our websites
Our corporate website – which is viewed by our customers, broker partners, suppliers, other businesses, analysts, investors and journalists – has a section dedicated to the environment (including climate issues) and is one of our richest sources for explaining how we go about being a responsible business. Our environment page – which has been viewed almost 1,200 times over the last 12 months – includes:

- our annual climate report, which has been downloaded almost 250 times;
- our climate change positioning paper, a summary document which provides a single view of how we think about and are responding to climate-related issues across the Group;
- information on our carbon emissions and carbon management plan, including our carbon offset programme;
- links to our ESG-related reports, policies and disclosures;
- links to recent climate-related papers and articles we have published;
- our membership of ClimateWise;
- an explanation of how we help customers adapt to climate change;
- a video on how our FloodXtra product is helping US customers with insufficient or no flood cover;
- our market resilience white paper, the result of an initiative spearheaded by our Chairman involving 23 other organisations in London to test their preparedness for a major hurricane simultaneously with a large-scale cyber-attack;
- information on our ‘green teams’ and our eco-partnerships.

Our annual climate report contains our view of climate risks and the actions we are taking to tackle them. We also have a section on ESG activity in our Annual Report, which can be found on pages 34-41 of our 2019 Report and Accounts. This important document is the primary source of information on us commonly referred to by analysts, investors, journalists, brokers and customers, and in it we set out how we think about ESG (including climate activity), how we achieve Board oversight of these issues, as well as recent activity.

Through our social media channels
From time to time we also share climate-related information through our social media channels, predominantly LinkedIn and Instagram. We have a very active Instagram feed (@hiscoxinsurance) through which we share news relating to our employees’ work on environmental and social causes. Our staff are actively engaged in this, sharing pictures celebrating their fundraising successes. During 2019-20, climate-related social media activity has included posts about World Environment Day, new materials including our climate report and impact report, and new initiatives undertaken such as our partnership in London with the food-sharing app, Olio.

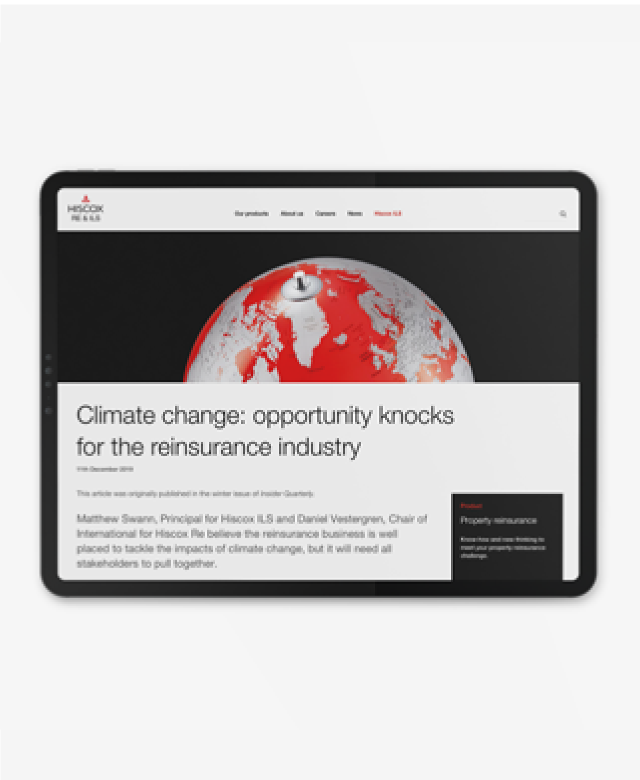
Through our actions
We try to avoid using paper where we can. For example, we send our customers policy-related communications, such as renewal notices, electronically; they will be given paper copies only on request. The paper we use is certified by the Forest Stewardship Council.

Through our public reporting
We understand that investors are sometimes hampered in making climate-related investment decisions by the lack of information from companies on their ESG policies. We also understand that, more generally, the public are increasingly interested in understanding how a company is performing when it comes to climate-related issues. That’s why we are committed to being judged on our progress on environmental issues by participating in independent, global ESG indices including:

- CDP;
- ClimateWise;
- Dow Jones Sustainability Index;
- FTSE4Good;
- Institutional Shareholder Services (ISS);
- Sustainalytics.

External communications

Some examples of our recent press activity, blogs and social media posts.



We remain a member of the FTSE4Good Index: a series of ethical investment stock market indices designed to help investors integrate environmental, social and governance (ESG) factors into their decisions.

The individual ratings identify companies that better manage ESG risks and are used as a basis for indices used by tracker funds structured products investors.

We are also proud to be so actively engaged in ClimateWise, for which we were a founding member. See page 6 for more information.

Principle 6.2
Informing our customers or clients of climate-related risk and providing support and tools so that they can assess their own levels of risk

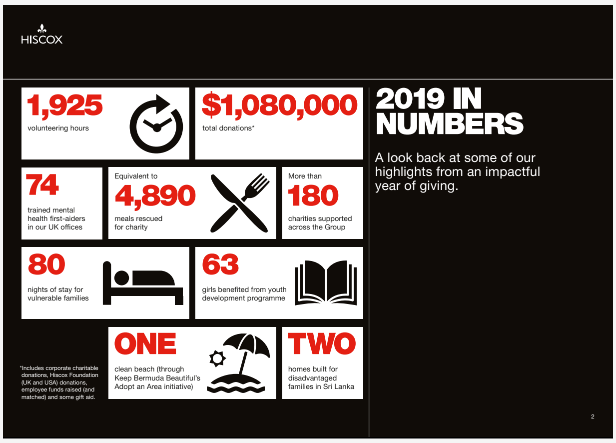
We help our customers understand climate-related risks through our publications and our products.

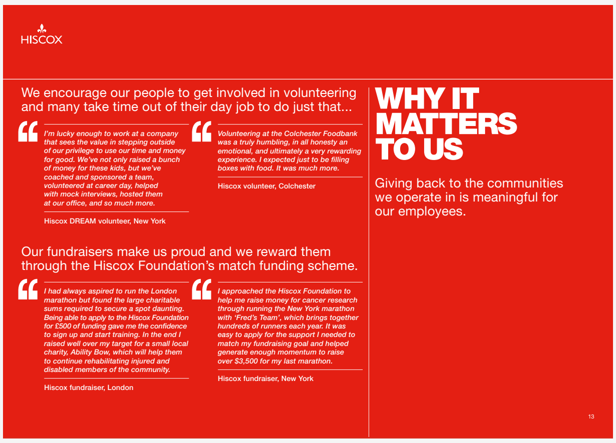
Hiscox publications
We produce a large number of articles and content looking at climate change from many different angles, both for the media (including general, business and trade press) and for our customers and broker partners through our own channels, such as blogs from different parts of the Group with different areas of expertise.

Examples of our thought leadership on climate-related risks and opportunities include:
- a blog post on how we have fundamentally reappraised our view of Japanese windstorm risk after two years of frequent, severe typhoons have highlighted vulnerabilities in the catastrophe models;
- a blog post on how social inflation is causing catastrophe clean-up costs to rise significantly, which are not captured within leading catastrophe models, causing insurers to potentially underestimate their exposure;
- Hiscox Global Insight, our online-only publication aimed at brokers, published a number of articles on climate and catastrophe-related topics including:
  - how the USA's ability to cope with a major hurricane could be compromised by its efforts to deal with COVID-19;
  - how many American coastal regions remain woefully underprepared – and uninsured – for storm-related floods;
  - the growing threat to ecology and public health posed by microplastics;
  - the implications of a new rating model being introduced by the US's National Flood Insurance Program.

Our first impact report

In 2020, we published our first impact report, detailing our work to support and improve the local communities in which our employees live through a host of charities. Several of these are climate-related causes, such as the 'Kids on the Reef' initiative with the Bermuda Zoological Society and The Felix Project in London, which helps tackle the enormous amounts of food waste in the capital when so many go hungry. We are proud to have supported over 180 charities in 2019, donating over $1 million and giving almost 2,000 hours in volunteering, and have already been building on this good work in 2020 through our COVID-19 response to support some of the most affected communities – with over $7 million donated to date.





We also contribute to the climate debate through our work with, and support of, the ABI, Lloyd's and ClimateWise. In 2019-20, they have published some important work on climate-related risks and opportunities.

The Association of British Insurers (ABI)
We are a company member of the Association of British Insurers (ABI) and our Chief Executive, Bronek Masojada, is an ABI board member, as well as its Senior Independent Director. In 2019-20, the ABI's work on climate-related issues included advice to policyholders affected by Storms Ciara and Dennis in February 2020 and the subsequent severe flooding along the River Severn; tips on how to avoid burst water pipes during a winter freeze; a response to Flood Re's Quinqennial Review and a commitment to work with the government's independent review into flood insurance, announced in April 2020.

The ABI also issues alerts ahead of extreme weather events, for example flood guidance from the Flood Forecasting Centre, on its website. These alerts are issued in advance of specific weather predictions and give advice about different types of flood risk from surface water, rivers, groundwater and coastal flooding.

ClimateWise
We are a founding member of ClimateWise. We participate as one of more than 20 members of the ClimateWise working group, and our ESG Executive Sponsor was appointed to the CISL Insurance Advisory Council during 2019.

During the year, ClimateWise published their annual Principles Review, the first since the framework was aligned with the Taskforce for Climate-related Financial Disclosures (TCFD), further improving transparency and accountability. In February 2019, ClimateWise published its 'Physical Risk Framework'; a practical guide for investors and lenders based on natural catastrophe models, outlining how the expertise and tools of the insurance industry can support other parts of the financial system to understand their physical risk exposure. Its 'Transition Risk Framework' was also published; a guide to help investors manage the risks and capture emerging opportunities from the low carbon transition; and other reports focused on topics such as the potential of mutual microinsurance as a tool to aid sustainable development. Events were held on climate-related financial disclosures; how insurers are integrating ESG into their investment models and discussions around how the insurance industry can close the climate risk protection gap in the transition to a low carbon, climate-resilient, economy.

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>
> Principle 6

LightHill Research Network
The LightHill Research Network provides the insurance industry with access to the latest academic research into risk, while also enabling the scientific community to interact with insurers. Hiscox is a member of the network's steering group.

In May 2020, it issued a report titled 'building better links between insurance and academia' to provide a gateway for researchers on how to help the insurance sector by addressing its 'known unknowns'. These include enabling insurers to better understand hydrological, flood and atmospheric risks in Europe, as well as how insurance industry catastrophe models can be updated to take account of the likely impact of climate change on the frequency and severity of natural disasters in future.

In March 2020, it produced two reports in partnership with the Cambridge Centre for Risk Studies, 'Developing Scenarios for the Insurance Industry' and 'Developing Scenarios for Disaster Risk Reduction' to provide insurers and governments, especially in developing countries, with best-practice tools to plan for big natural catastrophes.

Lloyd's
In March 2020, Lloyd's published 'Below 2°: insurance for a low carbon economy', a research report into the possible effects of transition and liability risks on general insurance up to 2030 through decarbonisation on the scale required to meet the Paris Agreement goal of limiting global warming to below 2° compared with pre-industrial levels. Hiscox participated in the compilation of this report through attendance at a series of workshops to provide opinions and insight.

In addition, Lloyd's published a series of three reports, in association with University College London's Centre for Energy Policy and Technology, on the rapid evolution of renewable energy, the risks associated with these technologies and how Lloyd's is responding to them.

Hiscox products
Climate change is among the greatest risks facing us all, and, so we strive to continually develop new products that address the changing climate-related risks and opportunities.

We have worked to try to bridge the insurance gap, and in recent years have focused on devising new ways to help address the lack of adequate flood cover for many homeowners:
- FloodPlus is an award-winning product devised by our London Market team that offers higher limits and wider coverage than those provided by the National Flood Insurance Program (NFIP), the US government-backed scheme. It also offers premium discounts for those who take steps to minimise the risk to their property from flood.
- FloodXtra is our reinsurance product that complements the flood risks we underwrite through our commercial property book in Hiscox USA and through FloodPlus.

We are also a member of Flood Re in the UK, which enables us to provide flood cover to new and existing customers, including some which we would otherwise struggle to source insurance insure because of their high risk location.

As well as offering more vulnerable homeowners the opportunity to protect their homes, the Flood Re scheme also helps people to better understand their flood risk and offers advice on how they can reduce it.

As part of its quinquennial review, Flood Re proposed to work with insurers to 'build back better' homes after being flooded, by agreeing to pay extra on flood claims so that homeowners can afford to make flood-resilient repairs to their properties. Discounted premiums for those who installed measures to make their homes less vulnerable to flooding is also proposed.

We also provide cover for climate-related technological innovations, as insurance can aid their take-up. Interest is growing for insurance products and services for environmental risks and climate change, and we have responded to that through our new product development process and will continue to do so. This includes:
- solar panel cover for policyholders with home insurance;
- enhanced insurance for environmental industry professionals, covering public indemnity insurance for survey work,defence costs for investigation under the Environmental Protection, Health and Safety, and Cover for Corporate Manslaughter Acts and Pollution;
- bespoke insurance for energy assessors who rate the energy efficiency of properties under the government's regulations.

Our commitment to reducing the environmental impact of our business extends to how we handle claims. We have a partnership with AnyJunk, an environmental waste firm, so that rubbish removed from our UK property claims, such as those affected by flood or fire, will not go to landfill. In 2019, AnyJunk collected 186,000kg of rubbish resulting from Hiscox claims, 94.7% of which was reused or recycled.

Our ambitions

Performance against our 2019-20 ambitions

Status	Ambition	Update
Ongoing	Continue to consider the development of new products and services that best protect our customers from the risks of climate change.	This is an ongoing area of focus for us, with the development of our flood products around the Group and our roll-out of household leak detection tools being examples of this work from 2019-20.
Complete	Ensure that climate change is included in our communications plans.	As part of our ESG activity, climate change has factored into our communications plans during 2019-20 and the strategy published in 2019 has resulted in a number of pieces of coverage (see page 49).
Complete	Develop our first impact report, for use with all key stakeholders (including customers) to highlight climate-related issues and demonstrate our work in this space.	Our first impact report was published in March 2020 and has already been shared widely through our websites and social media channels and also with some of our business partners. We plan to build on this success in 2020-21 with other reports that explore our role in society.

Our 2020-21 ambitions

To publish a special edition COVID-19 impact report, showcasing the work we have done to support some of the communities most affected by the crisis.

To find new ways to share the Hiscox ESG strategy with all of our key stakeholders.

To develop and publish a set of climate change metrics by which we will hold ourselves to account, enabling us to assess and report on our progress publicly in a more consistent way.

Case study
Raising flood risk awareness with brokers and customers through innovative events and tools

Flood is a growing climate risk faced by many of our customers and we have focused on raising awareness of the risk through education at the same time as developing products that respond to it. We hosted a virtual reality (VR) event in the USA which was attended by over 120 guests including some of our key US brokers, giving them the opportunity to experience a Category 5 hurricane hitting the East Coast of the USA for themselves. Using a VR headset, guests hunkered down to ride out the 160mph winds, witnessed the damage caused to one home by a catastrophic storm surge and then surveyed the destruction to a neighbourhood wrought by the storm. Once safe, guests were then able to find out more about the intelligent algorithms and leading modelling software used for our FloodPlus product to model how rising sea levels could impact real towns in the USA.

We have also developed an app – FloodPlus AR – that uses augmented reality to illustrate the growing flood threat to coastal towns and cities from rising sea levels. Our app allows users to see how predicted sea level rises could increase the threat of flooding, including in those areas where homeowners may believe they are not at risk.

Photo: Elizabeth Trujillo, BlushPix Photography.

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