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Hiscox Ltd full year results

For the year ended 31 December 2020

"A resilient performance in a challenging year"

	2020	2019 represented
Gross premiums written	$4,033.1m	$4,030.7m
Net premiums earned	$2,752.2m	$2,635.6m
(Loss)/profit before tax	$(268.5)m	$53.1m
(Loss)/earnings per share ($)	(91.6)¢	17.2¢
(Loss)/earnings per share (£)	(71.5)p	13.5p
Total ordinary dividend per share for the year	-	13.8¢*
Net asset value per share ($)	689.0¢	768.2¢
Net asset value per share (£)	503.9p	580.1p
Group combined ratio	114.5%	106.8%**
Return on equity (annualised)	(11.8)%	2.2%
Investment return (annualised)	2.8%	3.6%
Positive prior year development	$32.0m	$25.9m

Highlights

- Gross premiums written maintained at $4.0 billion in challenging conditions. Loss before tax of $268.5 million driven by the impact of Covid-19 (2019: profit of $53.1 million). Covid-19 reserves unchanged at $475 million.
  - Hiscox London Market delivers profits of $97.2 million (2019: $23.3 million) - an outstanding performance.
  - Hiscox Retail grows 3% to $2.3 billion (2019: $2.2 billion). Direct and partnerships business grows 15%, approaching $600 million GWP and serving over 800,000 customers.
  - Hiscox Re & ILS GWP down 14% to $743.4 million (2019: $866.5 million), driven by a disciplined approach to price inadequacy at the start of the year.
  - Strong investment return of $198 million (2019: $223 million).
  - Positive prior year reserve development of $32 million, and reserves 9.8% above actuarial estimate (2019: 9.4%).
- Positive rate momentum in all segments with London Market leading the way, up 20%.
- Portfolio refinement ongoing in 2021; $200 million reduction affecting Hiscox Retail.
  - $100 million of Special Risks business switching from Retail to become part of Hiscox London Market crisis management unit.
  - Hiscox USA to increase focus on more profitable smaller business leading to non-renewal of $100 million in premiums.
  - Portfolio changes over fixed costs together with prudent loss picks in uncertain economic environment expected to offset underlying Retail combined ratio progress in 2021.
  - 90% to 95% combined ratio target to be reached in 2023.
- Strong capital position following £375 million capital raise with 190% Bermuda Solvency Capital Ratio ("BSCR").
- New ESG Exclusions Policy for underwriting and investments published, confirming structured exit from coal; Arctic energy exploration, beginning with the Arctic National Wildlife Refuge; oil sands; and controversial weapons.

Bronek Masojada, Chief Executive Officer, Hiscox Ltd, commented:

"Our long-held strategy of balancing big-ticket lines and retail earnings has provided resilience in 2020. In 2021, our priorities will switch from resilience to opportunity as we are well-placed to make the most of the best conditions in the London Market in many years and the structural shift to digital across all our lines. I would like to thank our employees for their incredible efforts and our shareholders for their support."

*During 2020, the Board did not approve the 2019 final dividend of 29.6 cents per share and therefore the 2019 total ordinary dividend per share has been represented to 13.8 cents per share (from 43.4 cents per share). Please see note 15 for further details.

** In 2020 the Group further refined how it manages and evaluates the performance of the business units. All foreign exchange gains and losses are now managed centrally. This has resulted in the representation of the Group combined ratio for 2019 to 106.8% (from 105.7%). Please see note 6 for further details.

A conference call for investors and analysts will be held at 09:00 GMT on Wednesday, 3rd March 2021.

Participant dial-in numbers:

United Kingdom (Local): 020 3936 2999
All other locations: +44 20 3936 2999
Participant Access Code: 799826

Inside information

This announcement contains inside information.

The person responsible for arranging and authorising the release of this announcement on behalf of the Company is Marc Wetherhill, Group Company Secretary and General Counsel.

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Notes to editors

About The Hiscox Group

Hiscox is a global specialist insurer, headquartered in Bermuda and listed on the London Stock Exchange (LSE:HSX). Our ambition is to be a respected specialist insurer with a diverse portfolio by product and geography. We believe that building balance between catastrophe-exposed business and less volatile local specialty business gives us opportunities for profitable growth throughout the insurance cycle.

The Hiscox Group employs over 3,000 people in 14 countries, and has customers worldwide. Through the retail businesses in the UK, Europe, Asia and the USA, we offer a range of specialist insurance for professionals and business customers as well as homeowners. Internationally traded, bigger ticket business and reinsurance is underwritten through Hiscox London Market and Hiscox Re & ILS.

Our values define our business, with a focus on people, courage, ownership and integrity. We pride ourselves on being true to our word and our award-winning claims service is testament to that. For more information, visit www.hiscoxgroup.com.

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Chairman's statement

2020 got off to a good start and then came the global pandemic. Over my 48 years in the business, I have experienced most of the challenges that Mother Nature and mankind have thrown at the insurance industry, but Covid-19 and its repercussions have been one of the most testing. As a result, we expect to pay $475 million in Covid-related claims net of reinsurance, the majority for event cancellation and the remaining for business interruption and other claims. These are large sums and disappointingly means that we will make a pre-tax loss for the year of $268 million. Without Covid-19 we would have produced a profit of $207 million.

The pandemic has also affected the way we work and how we interact with each other. In the field of business processing, our response to the pandemic has significantly accelerated our digital progress. For example, in 2020 our London Market business bound over 90% of its business digitally, which is a phenomenal change in the way business is written in the market. Our investment in IT systems and the superb dedication of all our employees meant that the transition to working from home was almost seamless. We all long for a return to more normal working but it is unlikely we will return to exactly the way it was.

Gross written premiums are stable at $4,033.1 million (2019: $4,030.7 million) and the combined ratio increased to 114.5% (2019: 106.8%). Excluding Covid-19 the combined ratio decreased to 97.0% (2019: 106.8%).

Our long-term strategy has been to build a balanced book of business. We have grown our small-ticket Retail business in the UK, Europe, USA and Asia to balance the big-ticket London Market and Re & ILS businesses written through Lloyd's and in Bermuda. We have seen strong profitable growth in Hiscox London Market as rates continue to surge ahead in the wholesale markets. Disciplined underwriting over the last three years as we weeded out underperforming business has meant that we are very well placed to take advantage of the improving conditions. In Retail, Hiscox Europe and the US direct and partnerships business in particular had good results, notwithstanding the pandemic.

In all segments we have benefited from our multi-year investment in new technology and digital tools. These include new underwriting platforms, quote and buy systems, robotics and APIs to connect us with business partners. Global lockdowns have accelerated our customers' adoption of online systems and this has driven a good underlying performance in Hiscox Retail which delivered growth of 3%. Customer numbers in our Retail business have grown by 10% to 1.3 million over the period.

For Hiscox UK, Covid-19 brought about a dispute with a number of our customers over the wording in some commercial property policies. Our commitment to putting things right for our customers has long been the cornerstone of the Hiscox brand. But for the first time, our reputation for paying claims quickly and without fuss came under intense scrutiny. We regret any dispute with a customer, but particularly where the policy wording was not as clear as it should have been. That is why we willingly agreed to be one of the group of insurers that assisted the FCA with the test case and we welcome the finality and certainty the Supreme Court Judgment has brought. We are now paying covered claims as quickly as possible.

In the face of unprecedented economic uncertainty, prudent capital management is critical to ensure we are able to continue to serve our customers, pay valid claims and grow where opportunity permits. We have taken a range of proactive actions, both before the onset of the pandemic and since, to further strengthen Hiscox's robust balance sheet and position us for growth.

In our first quarter 2020 trading statement, we announced an equity placing for up to 19.99% of our issued share capital to support growth opportunities and rate improvements in the US wholesale and reinsurance markets. This placement was successful and we raised £375 million. I would like to thank our shareholders for their support during a challenging time.

In April, we announced the decision not to pay the 2019 final dividend and that the Group would not propose an interim dividend payment. The Board has also decided not to declare a final dividend for 2020. The decision was not taken lightly by the Board, who are acutely aware of the importance of dividends as a source of income for our shareholders, including private shareholders many of whom own shares through pension funds. The Executive Directors will not be taking any cash bonuses until the dividend is reinstated. The Board believes that as our business delivers the 2021 business plan and as profits flow through, it intends, subject to Board approval, to resume paying dividends with the 2021 interim results.

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The Group remains strongly capitalised against both our regulatory and rating agency requirements, and we are able to withstand a combination of severe downside scenarios including an active hurricane season.

People

Without the resilience of our 3,000 employees across the globe, we would not have overcome this challenging year. I would like to take this opportunity to thank everyone for their dedication, flexibility and, most of all, their hard work.

Over the years, we have employed some of the best minds in the industry, but like any business we must work hard to continue to attract and retain good people. I am immensely proud that in 2020 we welcomed over 300 new talented and ambitious individuals across the Group. Starting a new job during lockdown cannot be easy, and we have found new ways to welcome them.

One of our recent senior joiners has been Kathleen Reardon, our new Hiscox Re & ILS CEO. Kathleen has spent the last six years as CEO of Hamilton Re, where she built a reinsurance business from the ground up. She replaces Mike Krefta, who made an immense contribution to Hiscox during his 17-year tenure, most recently developing our ESG framework. We look forward to benefitting from Kathleen's depth of knowledge and presence in global reinsurance, and her experience of building businesses through the reinsurance cycle.

Diversity and inclusion

We are committed to creating a diverse and inclusive workplace and an environment where all employees are supported and can thrive. Under the leadership of Kate Markham, Hiscox London Market CEO and Group Executive Sponsor for D&I, we are improving the gender balance at all levels through a combination of key performance indicators, training, networking, mentorship and partnerships such as the Insurance Supper Club and the Independent Women in Insurance Network. This progress is reflected in our improved gender pay gap for the UK, and more diverse succession pipelines with at least one female successor for every leadership team role.

This work will continue in 2021, along with a sharpened focus on ethnicity and race as we look to make further progress against the action plans put in place this year in support of the #WeStandTogether movement.

Culture and values

We have been on the defensive in 2020 as our values have been tested and the trust we have painstakingly built over many years between us and our customers has been challenged to our dismay. It has been a particularly tough year, but during times like these we have to dig deep, go back to our core values, recognise where we need to improve and learn from the past.

Last year we shared the outputs of our most recent culture review; our refreshed values of courage, ownership, integrity, connectedness and being human. This year I was pleased to see them become embedded in our business and being lived. As it turned out, the timing of this exercise was fortuitous, and during a year of remote working at our kitchen tables and home offices, it is our values that have served as a golden thread throughout the Company.

Outlook

The challenges of a global pandemic have not withered the green shoots of a hardening market. Rates are rising across all three of our business areas, and the market is turning. Together with our multi-year investments in technology and digital tools, we have the infrastructure, talent and financial firepower to realise the significant opportunities ahead.

We can look forward with confidence as some normality returns globally in 2021 and we continue to focus on providing excellent service during these difficult times in all our markets.

Robert Childs

3 March 2021

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Chief Executive's report

2020 is a year few of us will forget as we all adapted to the impact of Covid-19 on our societies, our businesses and our lives. Adaptability and resilience were core to weathering the storm and few of us are untouched by the human tragedies it has caused.

Like many others, Hiscox adjusted well to the challenges of working from home, operating effectively to serve our customers and brokers, and contributing to our local communities. We established new partnerships to increase small business access to essential services and funding in both the UK and the USA, and supported a number of charitable endeavours - donating over $9 million to good causes around the world. These included foodbanks, mental health and well-being charities, hospitals, and the Association of British Insurers' Covid-19 Support Fund. Our ability to do all of this was due to the hard work and dedication of our staff, who were all the while dealing with their own personal Covid-19 challenges. I would like to thank them all for their tremendous efforts this year.

In 2020, Hiscox reported a pre-tax loss of $268.5 million (2019: profit of $53.1 million). The Group combined ratio was 114.5% (2019: 106.8%). Excluding the impact of Covid-19 claims, Hiscox's combined ratio was 97.0%, reflecting the underlying improvement in performance in many parts of the Group and the benefit of circa $80 million in expense savings.

Against a backdrop of sharp economic contraction across the markets in which we operate, the Group has maintained its revenues at $4.0 billion. Hiscox London Market has had a stellar year, growing its revenues by 5.7% to $1.0 billion, delivering a 93.7% combined ratio and profits of $97.2 million. Hiscox Retail grew by 3.2% to $2.3 billion and, excluding Covid-19 claims, delivered a combined ratio, within our guidance, of 97.7% and profits of $162 million. Including Covid-19, Hiscox Retail's combined ratio is 120.0% and it made a pre-tax loss of $237.6 million. Our direct and partnerships business across the world grew by 15% with total revenues approaching $600 million as we benefited from the ongoing structural shift to digital. Hiscox UK maintained its revenues at $756.1 million. The good performance in these segments offset the reduction in revenue in Hiscox Re & ILS as it showed discipline at last January's renewals, before benefiting from price rises in the rest of the year.

Hiscox's 2020 performance, while understandable, is not satisfactory. We have worked hard to address underperforming segments in our business through our Decile 10 action plans, and equally to grow our top-performing lines through our Quartile 1 focus. The performance of Hiscox London Market shows the positive impact of these plans.

As we look into 2021, we see two trends which will benefit Hiscox. The first is the dramatic digital acceleration which will benefit our direct and partnerships business, as well as our London Market business where we bound over 90% of our risks through Lloyd's PPL platform in 2020 and already trade $75 million through digital means with brokers and coverholders not located in London. The second is the rating environment that will drive strong return to profit by our London Market and Re & ILS businesses. This, in turn, will allow us to drive growth in our Retail division, making use of the inherent strength of our balanced business. It is this strategy that will position Hiscox to benefit from the generational shift to digital trading. This will allow us to serve more customers more effectively and the whole of Hiscox to prosper.

Global pandemic

As the pandemic spread across the countries in which we operate, we rapidly shifted to different ways of working. Our Chief Information Officer described it as instantly going from 35 offices to over 3,000. It was a smooth transition made simpler by past IT investments and the willingness of all staff to adapt, juggling roles as parents, carers and volunteers alongside their work. We committed to our staff that no one would leave the business in 2020 due to the economic impact of the pandemic. To adapt to changing demands we created a talent exchange which saw a number of colleagues moving to new roles, temporarily or permanently, particularly to support our frontline.

Paying claims in a fair and fast manner is part of our DNA. We have reserved $475 million for Covid-19 claims across all lines. Claims teams across the Group mobilised and delivered for our clients. The Group's largest share of Covid-19 losses is for event cancellation and abandonment, where Hiscox proactively sold communicable disease cover, and many of these claims have already been paid.

The Group's second largest share of Covid-19 claims is from UK business interruption cover in commercial property policies. Unsatisfactorily for both our policyholders and ourselves, there was disagreement over whether the Hiscox policy wordings responded to the steps taken by the UK government to manage Covid-19. Our claims paying philosophy is deep-rooted: to pay claims quickly, fairly and in line with the intention of the policy. The underwriting intention of these property policies is to respond to local events affecting a firm's premises and not to nationwide steps taken to manage the pandemic. When a claims decision is challenged it is the wording which determines the coverage in law, and there was room to question whether the Hiscox wording reflected this underwriting intent. We, of course, regret the impact of this disagreement on affected policyholders, and the adverse publicity we received as a result of it has been difficult for all of our stakeholders.

Similar disagreements occurred across the industry, and the Financial Conduct Authority recognised this by bringing an expedited industry test case before the UK courts on behalf of policyholders. Their ambition was to bring clarity to approximately 370,000 policies with over 50 insurers which were subject to dispute. In May, we agreed to participate in the industry test case process, along with seven other insurers and two customer action groups.

After the High Court decision in September, all parties involved had the option to appeal some or all of the Judgment to a higher court. Although Hiscox was ready to implement the High Court Judgment, once others appealed, we felt we had no option but to appeal and participate in the Supreme Court Hearing.

In January 2021, the Supreme Court Judgment largely confirmed the outcome of the High Court's ruling in respect of Hiscox that, except in rare circumstances, cover is restricted to Hiscox policyholders who were mandatorily closed. Approximately one third of Hiscox's 34,000 UK business interruption policies may respond as a result. The Supreme Court Judgment represents the final outcome of the industry test case, and there can be no further appeals. A process that would normally take a number of years was completed within nine months; almost lightning speed for any legal process of this complexity. We have begun paying claims in line with the Supreme Court Judgment. We have increased our claims handling capacity and the process of collecting information from customers who have cover and settling their claims is well under way.

Hiscox's exposure to potential business interruption claims arising from further UK government restrictions to contain the spread of Covid-19 has been running off at approximately 8% per month from June 2020, with residual exposure to be largely run off by the end of June 2021. Following the Supreme Court Judgment, the Group estimates exposure to restrictions already announced in 2021 to be less than $40 million if restrictions extend to the end of June.

We clearly regret the uncertainty and anguish that the dispute has caused to our customers, so it is important that we learn from this experience. The most important lesson is the need for clarity in wordings, to ensure intent is properly reflected in the policy detail. In addition, the customisation of policies has to be restricted to ensure that there is not a long tail of wordings serving very small numbers of customers. In 2021, we have commenced a series of initiatives aimed at addressing these issues.

Hiscox has undoubtedly suffered some brand damage this year. While I was reassured that net customer numbers in the UK remained stable in 2020, the route to restoring our brand is the same one which created it; providing flexible insurance cover to meet each customer's needs, paying each claim fairly and quickly, and doing this all with good customer service. Our reputation was built one risk, one claim, and one customer at a time, and with that same focus, in time, the brand will strengthen.

Hiscox Retail

Hiscox Retail comprises our retail businesses around the world: Hiscox UK, Hiscox Europe, Hiscox USA, Hiscox Special Risks and Hiscox Asia. In this segment, our specialist knowledge and retail products differentiate us and our ongoing investment in brand, distribution and technology helps us build a strong market position in an increasingly digital world.

Hiscox Retail wrote $2.3 billion of premiums globally in 2020, representing more than half of our Group's gross premiums and almost three-quarters net of reinsurance. In the face of extremely challenging operating conditions, our Retail business grew its top line by 3.2% and delivered growth in four of its five business units even as the pandemic spread across the globe and caused economic havoc.

Hiscox Retail's 2020 result is a loss of $237.6 million (2019: profit of $169.2 million) and a combined ratio of 120.0% (2019: 99.3%). This result has been materially impacted by Covid-19. Excluding the impact of Covid-19 claims, Hiscox Retail delivered profits of $162 million; the combined ratio is at 97.7%, which is in line with our guidance.

At the end of 2020 and in 2021, we are making two changes to improve the focus of Hiscox Retail. In late 2020, we restructured our Special Risks division, integrating its activities with Hiscox Europe, Hiscox USA and Hiscox London Market. As a result, in 2021, $100 million of Special Risks premium income from Retail will be reported within Hiscox London Market.

Over the past five years the digitally traded direct and partnerships segment has grown to be an increasing and more attractive part of Hiscox USA's business and it is where we see long-term growth opportunity. To accelerate this strategic shift, we have taken a decision to reshape our broker channel book, by exiting liability business for customers with revenues over $100 million as well as all broker channel stand-alone general liability business. We will also reshape our cyber book to respond to adverse ransomware trends. These actions will result in a reduction of up to $100 million in the USA broker channel which will be partially offset by continued strong growth in digital direct and partnerships business.

The combined effect of these changes will result in a one-time circa $200 million reduction in Retail premiums. In addition, these changes together with more cautious loss picks adopted for 2021 to reflect the uncertain economic environment and the inevitable time taken to address fixed costs as a result of this premium reduction, will mean our goal of reaching 90% to 95% Retail combined operating ratio range is expected to take to 2023. For 2021, we expect the Hiscox Retail combined ratio to be broadly in line with the 2020 result, excluding Covid-19 claims. We then expect an improving trajectory to 2023 as higher rates are recognised and the portfolio and expense management actions start to earn through.

The outlook for our Retail business is good and we are beginning to enjoy some positive rate momentum. We anticipate that 2021 Retail gross premiums will grow at the low end of our medium-term target range of 5%-15% on a like-for-like basis after allowing for $200 million reduction in premiums. Thereafter the business is expected to return to a high single digit growth expectation as our Direct and Partnerships business becomes a bigger contributor to the top line. One of the accelerating trends during the pandemic has been the shift to digital. Approaching $600 million of our 2020 Retail revenues came from our digitally traded direct and partnerships businesses, which now serves over 800,000 customers globally. Continuing historical growth trends, this business grew by 15% in 2020 with considerable room to grow further into an estimated 50 million target market of small, micro and nano businesses. We see this as a long-term opportunity for future growth and value creation.

Hiscox UK

Hiscox UK provides commercial insurance for small- and medium-sized businesses, media, events and entertainment as well as high net worth personal lines, fine art and luxury motor.

Hiscox UK delivered a resilient performance in 2020. Gross premiums written grew by 1.3% to $756.1 million (2019: $746.4 million), which is a good performance given the challenges of 2020.

Hiscox UK's commercial business, both direct and through the broker channel, has been the key driver of this performance. The business had strong growth in the first two months of the year, despite the headwinds caused by the IR35 tax changes which affect our direct commercial client base. We shrank between March and June due to the reduced level of business activity during the first lockdown. As the economy started to re-open over the summer period, we saw signs of recovery in July and August which has continued, and our direct commercial business had some of the strongest months in its history in November and December.

Our high net worth personal lines and fine art business has proven resilient. Revenues have been challenged as the team showed discipline on broker commissions. We also faced losses from Storms Dennis and Ciara in February as well as a large individual fine art loss. We simplified our business by selling RH Specialist vehicle insurance as the cross-sell opportunities were fewer than expected. Our media, entertainment and events lines have faced real challenges; not only due to pandemic-related losses, but also as a result of dwindling media production and events activity.

We have modest growth ambitions for the year ahead given the broader economic uncertainties. We expect to see continued headwinds from the implementation of IR35 in April and ongoing subdued activity in media and events. Offsetting this will be growth in new start-ups, either voluntary or forced, which is a pattern we have seen in previous tough economic conditions. We remain convinced that this entrepreneurial activity and the shift to digital will power Hiscox UK's medium-term growth ambitions. In 2021, we will focus on service quality, operational efficiency through automation and simplification, reviewing our policy wordings, and investing in our broker relationships.

Hiscox Europe

Hiscox Europe insures high-value household, fine art and classic cars and commercial insurance for small- and medium-sized businesses.

The business delivered a strong performance, growing gross premiums by 9.5% to $447.1 million (2019: $408.4 million), against the reduction in economic activity across European markets as the pandemic hampered growth. It was profitable after providing for the Covid-19 losses it faced.

Germany remains the key engine of Hiscox Europe. Our German business was the largest contributor to premiums in the region and delivered very healthy growth of 15%, thanks to a strong performance in commercial lines, technology and cyber. Benelux also delivered strong double-digit growth, supported by a strong performance in Belgium, which grew 16%.

Our operations in France have undergone a major transformation over the last two years. To improve underwriting performance, particularly in high-value household and commercial property, we have exited some unprofitable lines in the portfolio. This resulted in subdued top line growth but improved bottom line profitability.

Spain and Ireland both experienced mid-single digital premium growth. In Spain, we continue to focus on successful partnerships with banks and other carriers, as well as technology and insurtech companies.

In Ireland, where our commercial lines book was a strong growth driver early in the year, we have seen a material decline in new business in line with the economic impact of Covid-19. Alongside other local insurers, the team has been supporting customers affected by Covid-19 with extended credit terms, premium adjustments and other financial measures.

Hiscox Europe expects to implement the first phase of a new technology platform during 2021, starting in Germany. This will then roll out to other territories in subsequent years. This new infrastructure will help us capture the growth opportunities we see in both the traditional broker and digital channels.

Hiscox USA

Hiscox USA underwrites small- to mid-market commercial risks through brokers, other insurers and distribution partners and directly to businesses online and over the telephone. Gross written premiums grew by 2.6% to $887.1 million (2019: $865.0 million). Planned reductions were made in the broker channel in private company D&O and media to improve our book, and these were offset by continued strong growth in our direct and partnerships small commercial business. This channel grew revenues by 22.7% in the year to $337.7 million and now insures approximately 430,000 customers. Our operations have proven to be robust in the face of the pandemic. Despite the lockdown we continued to deliver excellent uninterrupted service, taking nearly one million calls with 80% answered within 20 seconds.

We have built this digital business since 2010 through ongoing investment in our brand, technology and operational know-how. Hiscox USA is now over half-way through a platform upgrade which will support future growth. We have pursued an omni-channel approach since we began, and so are less constrained by the channel conflict which affects some of our competitors. Our customers have a choice of buying our policies online end-to-end, by speaking to a Hiscox agent over the telephone, or alternatively through a third-party broker or insurance carrier partner. We follow an 'all roads lead to Hiscox' philosophy, ensuring we are available to do business with our target customers whichever way they choose, and it has served us well.

Our core target market are small, micro and nano businesses. We estimate there are in excess of 30 million small businesses in the USA. This market is fragmented and these businesses are increasingly shifting to digital ways of buying their insurance. Hiscox already has approximately 430,000 customers in this segment, so we enjoy customer and data insights as well as economies of scale that are not available to others.

Over the past five years this segment has made up an increasing and more attractive part of Hiscox USA's business and it is where we see our long-term future. To accelerate this strategic shift, we have taken the decision to proactively reshape our book by exiting liability business for customers with revenues over $100 million turnover as well as all broker channel stand-alone general liability business. Given the rising ransomware claims facing the market, we will also pull back in cyber until there is significant market re-rating combined with changes in terms and conditions. These actions will result in a reduction of up to $100 million in the USA broker channel which will be partially offset by continued growth in our digital direct and partnership business.

Hiscox is already one of America’s leading digital small business insurers. Our goal is to further cement our market position and to continue capturing a leading share of over 30 million small businesses that represent the market opportunity ahead of us.

Hiscox Special Risks

Hiscox Special Risks underwrites kidnap and ransom, security risks, personal accident, classic car, jewellery and fine art, with teams in multiple locations.

Hiscox Special Risks wrote $127.8 million in premiums, broadly in line with the prior year period (2019: $129.9 million). Existing business retention has been strong and while we have experienced heightened ransomware claims, this has been mitigated by reinsurance.

Our Special Risks products are increasingly purchased by our clients as part of a broader suite of crisis management products and to reflect this shift, we are moving to a geographic distribution-led approach. Under the new structure, locally-written kidnap and ransom business in the USA and Europe will be written through the respective Retail businesses, while a newly-created crisis management division within Hiscox London Market will handle business written in Guernsey, Miami and London. All business units will continue to work closely with long-time partner and market-leading response firm Control Risks.

The successful reorganisation of the Special Risks business was completed in the fourth quarter of 2020 and as a result Special Risks ceased to exist as a stand-alone unit from 1 January 2021. The Group’s financial reporting in 2021 will reflect this change, resulting in $100 million of premium from the Retail segment now being reported within Hiscox London Market.

Hiscox Asia

Our brand in Asia, DirectAsia, is a direct-to-consumer business operating in Singapore and Thailand that sells predominantly motor insurance.

In this challenging year, DirectAsia grew its written premiums by 26% to $48.2 million. Thailand posted an exceptional 58% growth, with Singapore delivering a respectable 10% increase, despite the extended Covid-19 lockdowns which seriously impacted its travel and partnerships business. Thanks to this growth, underwriting discipline and diligent management, DirectAsia has seen a significant improvement in its combined ratio.

Hiscox London Market

Our London Market business is the star performer of 2020. It continues to use the global licences, distribution network and credit rating of Lloyd’s to insure clients throughout the world. The team’s focus over the past several years has been on improving portfolio quality in a rising market so growth is modest at 5.7%, taking gross written premiums to $1,023.4 million (2019: $967.9 million). A focus on quality has been rewarded with profits of $97.2 million (2019: $23.3 million) and a net combined ratio of 93.7%, a 11.9% improvement on 2019. More importantly, we have delivered an underwriting profit of $40.7 million (2019: loss of $26.3 million), even after including $13 million of Covid-19-related losses.

This improvement reflects the hard work under a ‘3-1-1’ plan. Here, we have sought to reduce the loss ratio by 3%, reduce commissions by 1% and reduce the expense ratio by 1%. This was initiated several years ago and its implementation has steadily become more rigorous, requiring a combination of organisational and orchestration skills and effective risk by risk negotiations. This has seen us drive rate improvements of 20% in 2020, with 16 of our 17 lines enjoying price rises and ten lines benefiting from double-digit rate increases. This is now the fourth year of rate increases with cumulative increases of 43% since 2017.

The most significant rate improvement continues to be seen in casualty lines such as US public company D&O and US general liability, alongside terms and conditions improvements, and reduced line sizes. In the marine and energy book trends are positive, with rates increasing by 24% in cargo, and 20% in hull.

In our property lines we saw rate growth of 20% in major property where we grew our average line size over the year. We have reduced exposure in household and commercial binders through non-renewal of contracts, increased rates and by restricting aggregate in certain counties. These will flow into our results in 2021 and 2022 as new terms and increased rates feed into the portfolios. As part of this optimisation, we undertook a large data project which allowed us to match historic policies and claims at a risk level. Going forward, we will aim to do this on a quarterly basis, so we can target rate changes and aggregate management to use our capital in the most effective way.

Hiscox London Market is also making steady progress in its own digital initiatives. These plans have two strands. The first is through supporting the Lloyd's market initiatives, where we bound over 90% of our risks through PPL, the Lloyd's market digital platform. The second involves digital trading with brokers and coverholders not located in London. FloodPlus allows us to price risks in real-time with US coverholders, managing aggregate and pricing on a day-to-day basis, especially important when a river is in flood. Across all lines we traded almost $75 million of business through non-traditional digital means. Our medium-term ambition is to grow this steadily to $250 million. We see this as a critical step to allow Hiscox London Market to concentrate most of its underwriting talent in London, while using digital tools to unlock growth opportunities around the world.

In 2021, Hiscox London Market will benefit from the continuing hardening market. Thanks to Syndicate 33's stamp capacity of £1.7 billion we have sufficient headroom to do this. We will judiciously increase our aggregate exposures, with most growth coming from rates. As a result, we expect London Market growth in 2021 in mid to high single digits delivered at improving margins. The compounding impacts of rate and portfolio improvements in recent years will, we believe, drive attractive multi-year profitability.

Hiscox Re & ILS

The Hiscox Re & ILS segment comprises the Group's reinsurance activities in London and Bermuda and insurance-linked security (ILS) activity through our family of funds in Bermuda.

2020 saw gross written premiums reduce by 14.2%, to $743.4 million (2019: $866.5 million), driven by a disciplined approach to price inadequacy at the start of the year. This includes $15.1 million of reinstatement premiums (2019: $87.2 million). Hiscox Re & ILS made a loss of $35.1 million (2019: loss of $107.6 million). Excluding Covid-19 claims it made a profit of $28.4 million; this is a good result considering the high frequency of North American catastrophe and weather-related events in 2020 and adverse developments in exited healthcare and casualty business.

After a cautious start at the January renewals, we returned to growth as the market began to harden from April onwards. Overall, we have achieved a 12% average rate increase, with positive rate momentum carrying through to January 2021 renewals.

During the year we have been reshaping the book to focus where we see the most opportunity. In US property catastrophe and excess of loss, we adjusted the portfolio away from the more capital-intensive nationwide covers and Florida programmes. In the international catastrophe book, we secured rate increases of 16% in Japan, in line with an updated view of typhoon risk which reflects two active years for Japanese windstorm losses. Net exposure in our retrocession book was up 65% as we sought to take advantage of rate improvements of over 20%.

In 2020, Hiscox ILS assets under management declined slightly to $1.4 billion (2019: $1.5 billion). The slight reduction on the previous year is mostly due to redemptions we reported last year.

In 2021, Hiscox Re & ILS will benefit from the deployment of some of the proceeds from the Group's equity raise earlier in the year. We expect that our net written premium growth will exceed growth in gross written premiums as Hiscox Re & ILS retains more risk in the strongest reinsurance market in several years.

Claims

Claims experience in the year has been mixed. We have benefited from some frequency reduction due to the lower levels of activity during the lockdowns. At the same time, we saw a number of large marine liability losses, exposure to the Beirut explosion, floods in the UK, some US tax-related professional liability claims as well as claims from multiple Atlantic hurricanes. All of these claims, and our normal attritional and large losses, together with Covid-19-related claims in all territories, have been handled by our claims teams in their usual award-winning manner. I would like to thank them all for their professionalism in very challenging circumstances.

Our claims teams took the lead in managing our participation in the UK industry test case, and now that it is over, are managing our claims settlement processes. We have created significant surge capacity, drawing on resources in the UK, USA and Australia to make sure we have the capacity to deal with all claims fairly and quickly.

During the year we made material progress in claims transformation. In the USA we completed the insourcing of some of our legal work, and where we do rely on external lawyers, we have renegotiated hourly rates and consolidated vendors to make this more cost-effective. This is part of our global initiative to create a single vendor management platform integrating all external providers across our markets, which has already led to significant panel cost savings in the USA and Europe.

We have also made strides towards a data-based operating model for claims by quadrupling the data analytics team, driving deployment of machine learning tools to analyse our loss portfolios and launching a fraud mitigation tool in the UK. In 2020, we built a quality assurance portal to automate the claims control environment which is already live in the USA and will be deployed to the rest of the business in 2021.

The high quality of the Hiscox claims experience has been recognised by brokers in the London Market and across the UK. The Lockton Claims Survey ranked Hiscox as the number one performer out of 37 peer insurers. AON's 2020 'Voice of the Client Claims Insights Global' rated Hiscox's net promoter score as 15th best out of 475 participating insurers. Hiscox was also one of just two insurers to be awarded five stars in Insurance Times' 2020 Personal Lines Ratings.

Information technology and major projects

Over the past five years we have progressively been replacing our core systems which has allowed us to benefit from the digital shift accelerated by the pandemic. In the USA we implemented the first two phases of our new technology platform in the direct and partnerships business. We expect to complete the programme by the end of the third quarter in 2021 allowing us to continue marching towards the significant digital SME opportunity. In the UK, we have steadily improved our portfolio underwriting capability and 90% of our new and renewal business is now handled through automated underwriting rules. In Europe we are working on our technology replacement programme, with implementation beginning in Germany during 2021. We have also been working on interfaces to connect our partner's systems to ours. Across the world we are now connected to 158 partners in this way.

In addition to systems supporting our frontline teams, we are close to the end of our finance transformation programme. This programme has replaced many legacy systems and processes allowing our finance team to keep pace with the scale of business we are now, and the growth to come. The next finance focus is preparing for IFRS 17.

As Hiscox has grown organically, we have often introduced complexity to win every piece of business and handle every customer need. This means we have too many legal entities, too many wording variations, too many sub-scale business relationships and too many suppliers. Under the rubric of the Hiscox simplification programme we are addressing these and other unnecessary complexities in 2021. We expect the savings generated will help deliver on our plan to reduce our expense ratio by 1% a year over the next two-to-three years. It will also ensure our business is easier to manage and control.

Investments

We manage our investment portfolio with two main objectives in mind: providing sufficient liquidity to pay claims and providing capital to support the underwriting business, while generating strong risk-adjusted returns. Despite the turbulence of 2020, the portfolio strategy helped us navigate the volatile markets well. The investment returns for 2020 were very robust at $198 million (2019: $223 million) after investment expenses, a return of 2.8% (2019: 3.6%).

After a difficult start to 2020 we saw a significant improvement in market sentiment in the second half of the year. Incremental additions to risk assets during the depths of the crisis have performed well and helped boost returns for the year. Encouraged that the end of the pandemic is in sight, the assets of the most affected sectors of the economy surged on the expectation that economic activity may improve markedly in 2021. We have subsequently taken profits in some of our risk asset positions.

Corporate bond spreads have now retraced much of the Q1 2020 widening given the backdrop of ongoing fiscal and monetary policy support. Given the high quality of corporate bonds held, we remain comfortable maintaining

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our current credit exposures. While equity markets have rebounded generally, we have seen significant divergence in valuations between regions and sectors and so maintain modest exposure to selected risk assets.

While the full year 2020 investment return is well ahead of the original forecast, more meagre investment returns should be expected for 2021. Government bond yields are close to zero, while credit spreads for high-quality bonds are now at pre-Covid levels, reducing yields materially. The current yield to maturity on the bond portfolio is at its lowest ever at just 0.4% (December 2019:1.6%).

We continue to look through ongoing volatility to steadily invest into positions where valuations present attractive long-term risk and capital adjusted outcomes.

Capital and balance sheet strength

Hiscox's approach to capital management is to ensure our balance sheet is sufficiently robust to absorb large shocks, whether due to insurance losses or economic stress, while maintaining the financial flexibility to seize opportunities as they arise.

Our capital position during the year was bolstered by a £375 million non-pre-emptive equity placement. I would like to thank our shareholders for the support they provided to our business during a very challenging time. The capital raised externally was supplemented by action taken internally during the year to generate around $65 million of capital saving by combining our two Bermuda-based reinsurance carriers.

At the end of the year, the Hiscox Group estimated a regulatory solvency ratio of 190%, after absorbing our 2020 loss and the second stage of the Bermuda Monetary Authority's strengthening of its solvency regime. Over the period 2019 to 2021 the Bermuda Solvency Capital basis is being strengthened, resulting in higher capital requirements; to the end of 2020 this has had a 20 percentage point impact on the Hiscox coverage ratio. The final stage of basis strengthening will occur in 2021 and is expected to reduce the coverage ratio by ten to fifteen percentage points. This basis strengthening is expected to be funded by organic capital generation. We remain A-rated by S&P and A.M. Best and A+ by Fitch.

We have a toolset of proactive capital management measures at our disposal which can help provide capital relief, reduce volatility and bolster our balance sheet strength further. In 2020, ahead of the North America hurricane season, we purchased approximately $100 million of additional catastrophe reinsurance in the form of industry loss warranties. We are also looking at legacy reinsurance solutions and may execute one or more of these in 2021 if the cost and capital efficiency they provide is attractive.

Our current capital position is sufficient to support our 2021 business plan, allowing us to take advantage of the hardening market in our big-ticket businesses. These businesses already have scale, and as can be seen from Hiscox London Market's 2020 result, a judicious balance of exposure increases, portfolio optimisation and compounding rate rises leads to attractive returns. We anticipate that the strong return to profit of our big-ticket businesses will allow us to drive growth in our retail business. This makes use of the inherent strength of our balanced business and allows us to position Hiscox to benefit from the generational shift to digital trading in the small business sector around the world.

In the face of the uncertainty arising from Covid-19 and the losses it generated, the Board took the decision not to pay a 2019 final or 2020 interim dividend. In view of the full year loss and a desire to have capital to deploy into a strong market, the Board has also taken the decision not to pay a 2020 final dividend. The Board believes that as our business delivers the 2021 business plan and as profits flow through, it will, subject to approval at the time, resume paying dividends with the 2021 interim results.

Environmental, social and governance

Across the world there has been heightened scrutiny and expectations on companies to consider environmental, social and governance factors in their day-to-day business. As insurers we are keenly aware of the impact of climate trends and volatility on the risks that we face and take them into active consideration in the pricing and management of our exposures. In the 2020 update of the Hiscox view of risk, we adjusted it to account for recent trends in severe typhoon activity and will keep reviewing climate-related activity on a peril-by-peril basis. We also have taken proactive steps to support those at risk from climate impacts through insurance products like FloodPlus, and in reinsurance, FloodXtra.

Hiscox has long sought to reduce its own carbon footprint, targeting a 15% real-term reduction in our Scope 1, 2 and 3 carbon emissions per FTE by the end of 2020, relative to 2014. We have achieved this target, completing a 45% real-term reduction in Scope 1, 2 and 3 carbon emissions per FTE over that period. Covid-19 has had a one-off positive impact by driving down business travel, currently one of the biggest contributors to our emissions, and we will assess what level of business travel is right for us going forward, though as a global business it cannot be eradicated completely. We will also set new near- to medium-term carbon emission reduction targets in 2021, aligned to the Science Based Targets initiative, and define our action plan for limiting emissions. This will support our established carbon offsetting programme which ensures we operate in a carbon neutral manner, having been carbon-neutral through offsetting since 2014.

With the publication of these results Hiscox has announced its commitment to steadily reduce and eliminate by 2030 our insurance, reinsurance and investment exposure to coal-fired power plants and coal mines; Arctic energy exploration, beginning with the Arctic National Wildlife Refuge; oil sands; and controversial weapons such as land mines. These commitments are aligned with the Lloyd's ambitions announced in December and will take effect from 1 January 2022, though their implementation has already begun.

Hiscox is a member of ClimateWise, a constituent of CDP, the Dow Jones Sustainability Index and FTSE4Good, and our assets are managed by firms that are aligned with the UN-supported Principles for Responsible Investment. We are committed to being a sustainable business and will ensure that our business practices continue to evolve to support the transition to a net-zero world.

Our staff are involved in a myriad of environmentally-focused activities. These include beach clean-ups in Bermuda, creating virtual reality experiences that allow our brokers to experience a Category 5 hurricane, promoting recycling initiatives in our offices, and establishing new partnerships that detect water leaks early; thereby reducing water wastage in customer's homes. I am proud of these efforts, and more information on them is available in our 2020 climate report on our corporate website. This complies with our Task Force on Climate-related Financial Disclosure obligations.

In a year of significant trauma for the communities in which we operate, Hiscox increased its social support significantly. We supplied meals to NHS staff at The Royal Marsden Hospital, together with one of our UK catering partners; supported small businesses in the USA by giving staff $100 each to spend locally; funded ventilators at hospitals in Guernsey and Bermuda; provided 4,000 nights of emergency accommodation for vulnerable young people; and contributed to the Association of British Insurers' Covid-19 Support Fund. We supported good causes in every country where we operate during the year and donated over $9 million in total.

We also took additional steps to support our employees this year. WeMind, Hiscox's mental health and well-being employee network, has been very active, providing new mental health training and expert webinars and promoting the services of our in-house mental health first aiders. Our other employee networks, such as our Parents and Caregivers network, have also found new ways to connect and collaborate.

Finally, in 2020, we launched an updated Hiscox Group Governance Framework which clarified interactions, expectations and decision making across Hiscox Ltd, the Group and business units. This structure will prove useful to ensure that the Group acts in concert and clear prioritisation can be taken, with individual Boards having ownership and accountability for critical decisions in a challenging time and ensuring compliance with local regulatory expectations.

People

2020 has been a truly tough year and it is our people who have persevered against all odds, showing resilience, adaptability and determination. Thanks to the individual and collective efforts of over 3,000 staff, Hiscox has weathered the storm and I can only thank each and every one of them.

One of the signs of a hardening market is increasing competition for talent. Hiscox has invested in both new and experienced underwriters and we have been nurturing expertise across all ranks of the organisation. This has helped create our culture and reputation in the market. We are, and want to continue to be, a great place to work for the ambitious and talented, so it is no surprise that we are on occasion targeted by others. Hiscox has business maturity and market presence, so the market conditions that make start-ups attractive investments, apply equally to us on a larger scale. Rewards will follow as our business delivers on its plans.

In October, the Group announced that Kathleen Reardon had been appointed as CEO of Hiscox Re & ILS. Kathleen has spent the last six years as CEO of Hamilton Re and she brings a deep understanding of the market, a huge amount of underwriting expertise, a proven ability to build a business across the cycle and develop talent. She succeeded Mike Krefta who decided to take a career break after 17 years at Hiscox and leaves with our thanks and good wishes. Mike rose through the Hiscox ranks from an entry-level position in a career which spanned both Retail and big-ticket, operations, analytics and underwriting and London and Bermuda. In addition, Mike was our ESG Executive Sponsor and we owe him a debt of gratitude, for leading and at times cajoling our response to inform the proactive, forward-looking approach we have today.

We continue to attract talent at all levels, including through our graduate scheme in the UK, USA and Germany and our UK summer intern programme which changed to a virtual programme in 2020. We are pressing ahead with similar programmes for 2021, with a focus on reaching new and diverse talent pools. Hiscox has a diverse set of leaders at the Executive Committee, business unit CEO and functional leader level, but this wanes in the middle ranks. We are committed to addressing this both through adapting our internal processes and through partnerships in the UK with The Bright Network, The Brokerage, Afro Caribbean Insurance Network, and targeted recruitment in the USA, Bermuda and Europe with our existing recruitment partners. We also have internal schemes to continue to train and develop mid-ranking staff to reach our target of filling 50% of all promotions with internal candidates. All these efforts will ensure that Hiscox remains a desirable and fulfilling place to work.

Outlook

In 2021, we expect to see the benefits of our balanced business strategy asserting itself in a proactive manner after the past four years where the benefits have been mostly defensive. In 2017-2019, profits in our Retail business offset the pressures of the bottom of the cycle faced by Hiscox London Market and Hiscox Re & ILS. In 2020, Hiscox London Market's stellar performance supported by profits in Hiscox Europe and Hiscox Special Risks and better-than-expected investment returns, mitigated the impact of the pandemic.

In 2021, I expect our big-ticket businesses to perform well, thanks to the increased capital allocated to them, their judiciously positioned portfolios, and the benefit of compound rate increases. Hiscox London Market and Hiscox Re & ILS are in their best markets for almost half a decade and their focus is on driving profits over maximising scale. This will provide good returns for shareholders and allows our Retail businesses to navigate the economic uncertainties within their respective countries of operation.

I also expect that we will see good growth of our Retail digital endeavours, focused as they are on the one-to-ten person firms which grow in number as people leave larger firms and set up in business themselves. Hiscox Retail will face headwinds from the 10-250 person firms who are likely to be most affected by the uncertainty of a post-pandemic economy and our own portfolio improvement activity.

Where we see opportunities we will use some of the big-ticket profits to drive our Retail businesses forward with investments greater than they can afford alone, making sure we can capture more than our fair share of the structural shift to digital in the small business segment.

Our priorities next year are to ensure we maintain the strict discipline of underwriting for profit, streamlining our model to simplify the business and, most importantly, energising our teams. 2021 has started well and our sense of ownership and connectedness will allow us to thrive as we capitalise on the opportunity that lies ahead of us.

Bronek Masojada

3 March 2021

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Additional performance measures (APMs)

The Group uses, throughout its financial publications, additional performance measures (APMs) in addition to the figures that are prepared in accordance with International Financial Reporting Standards (IFRS). The Group believes that these measures provide useful information to enhance the understanding of its financial performance. These APMs are: premium growth in local currency, combined claims and expense ratios, return on equity, net asset value per share and net tangible asset value per share and prior year developments. These are common measures used across the industry, and allow the reader of our Annual Report and Accounts to compare across peer companies. The APMs should be viewed as complementary to, rather than a substitute for, the figures prepared in accordance with IFRS.

To align to the financial information presented in operating segment, note 6 to the condensed consolidated financial statements and management information, the Directors decided to stop disclosing premium growth in local currency as key performance measure. The Group reports the premium growth in US dollars, the presentation currency of the condensed consolidated financial statements.

- **Combined claims and expense ratios**

The combined claims and expense ratios are common measures enabling comparability across the insurance industry that measure the relevant underwriting profitability of the business by reference to its costs as a proportion of its net earned premium. The Group calculates the combined ratio as if the Group owned all of the business, including the proportion of Syndicate 33 that the Group does not own (Group controlled income). The Group does this to enable comparability from period to period as the business mix may change in a segment between insurance carriers, and this enables the Group to measure all of its underwriting businesses on an equal measure. The calculation is discussed further in note 6, operating segments. The combined ratio excluding foreign exchange gains is calculated as the sum of the claims ratio and the expense ratio.

- **Return on equity (ROE)**

Use of return on equity is common within the financial services industry, and the Group uses ROE as one of its key performance metrics. While the measure enables the Company to compare itself against other peer companies in the immediate industry, it is also a key measure internaly where it is used to compare the profitability of business segments, and underpins the performance related pay and pre-2018 shared-based payment structures. The ROE is shown in note 8, along with an explanation of the calculation.

- **Net asset value (NAV) per share and net tangible asset value per share**

The Group uses NAV per share as one of its key performance metrics, including using the movement of NAV per share in the calculation of the options vesting of awards granted under Performance Share Plans (PSP) from 2018 onwards. This is a widely used key measure for management and also for users of the financial statements to provide comparability across peers in the market. Net tangible asset value comprises total equity excluding intangible assets. NAV per share and net tangible asset value per share are shown in note 7, along with an explanation of the calculation.

- **Prior-year developments**

Prior-year developments are a measure of favourable or adverse development that existed at the prior balance sheet date. It enables the users of the financial statements to compare and contrast the Group’s performance relative to peer companies. The Group maintains a prudent approach to reserving, to help mitigate the uncertainty within the reserve estimates. The prior-year development is calculated as the positive or negative movement in ultimate losses on prior accident years between the current and prior-year balance sheet date, as shown in note 13.

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Condensed consolidated income statement

For the year ended 31 December 2020

	Note	**2020 Total $m**	2019 Total $m
Income			
Gross premiums written	6	4,033.1	4,030.7
Outward reinsurance premiums		(1,282.7)	(1,351.9)
Net premiums written		2,750.4	2,678.8
Gross premiums earned		4,071.2	3,931.9
Premiums ceded to reinsurers		(1,319.0)	(1,296.3)
Net premiums earned		2,752.2	2,635.6
Investment result	9	197.5	223.0
Other income	10	50.2	53.1
Total income		2,999.9	2,911.7
Expenses			
Claims and claim adjustment expenses		(2,966.5)	(3,206.7)
Reinsurance recoveries		1,043.8	1,630.6
Claims and claim adjustment expenses, net of reinsurance		(1,922.7)	(1,576.1)
Expenses for the acquisition of insurance contracts		(1,002.9)	(944.9)
Reinsurance commission income		289.0	283.9
Operational expenses	10	(573.0)	(593.5)
Net foreign exchange (loss)/gain		(14.5)	8.5
Total expenses		(3,224.1)	(2,822.1)
Results of operating activities		(224.2)	89.6
Finance costs	11	(44.0)	(36.6)
Share of (loss)/profit of associates after tax		(0.3)	0.1
(Loss)/profit before tax		(268.5)	53.1
Tax expense	12	(25.2)	(4.2)
(Loss)/profit for the year (all attributable to owners of the Company)		(293.7)	48.9
(Loss)/earnings per share on (loss)/profit attributable to owners of the Company			
Basic	14	**(91.6)¢**	**17.2¢**
Diluted	14	**(90.6)¢**	**16.9¢**

The notes to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated statement of comprehensive income

For the year ended 31 December 2020

	2020 Total $m	2019 Total $m
(Loss)/profit for the year	(293.7)	48.9
Other comprehensive income		
Items that will not be reclassified to the income statement:		
Remeasurements of the net defined benefit obligation	(38.0)	(16.5)
Income tax effect	8.8	3.4
	(29.2)	(13.1)
Items that may be reclassified subsequently to the income statement:		
Exchange gains/(losses) on translating foreign operations	55.5	(1.0)
	55.5	(1.0)
Other comprehensive income net of tax	26.3	(14.1)
Total comprehensive income for the year (all attributable to owners of the Company)	(267.4)	34.8

The notes to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated balance sheet

At 31 December 2020

	Note	2020 $m	2019 $m
Assets			
Goodwill and intangible assets		298.9	278.0
Property, plant and equipment		109.4	128.4
Investments in associates		4.9	8.6
Deferred tax		70.7	76.9
Deferred acquisition costs		439.2	456.1
Financial assets carried at fair value	16	6,116.8	5,539.0
Reinsurance assets	13	3,644.6	3,386.9
Loans and receivables including insurance receivables		1,591.2	1,556.3
Current tax asset		3.3	4.7
Cash and cash equivalents		1,577.2	1,115.9
Total assets		13,856.2	12,550.8
Equity and liabilities			
Shareholders' equity			
Share capital		38.7	34.1
Share premium		516.5	70.5
Contributed surplus		184.0	184.0
Currency translation reserve		(270.8)	(326.3)
Retained earnings		1,884.4	2,226.3
Equity attributable to owners of the Company		2,352.8	2,188.6
Non-controlling interest		1.1	1.1
Total equity		2,353.9	2,189.7
Employee retirement benefit obligations		73.5	55.1
Deferred tax		2.7	0.4
Insurance liabilities	13	9,113.4	8,094.5
Financial liabilities	16	946.7	728.8
Current tax		30.4	62.0
Trade and other payables		1,335.6	1,420.3
Total liabilities		11,502.3	10,361.1
Total equity and liabilities		13,856.2	12,550.8

The notes to the condensed consolidated financial statements are an integral part of this document.

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Condensed consolidated statement of changes in equity

For the year ended 31 December 2020

	Share capital $m	Share premium $m	Contributed surplus $m	Currency translation reserve $m	Retained earnings $m	Equity attributable to owners of the Company $m	Non-controlling interest $m	Total equity $m
Balance at 1 January 2020	**34.1**	**70.5**	**184.0**	**(326.3)**	**2,226.3**	**2,188.6**	**1.1**	**2,189.7**
Loss for the year (all attributable to owners of the Company)	-	-	-	-	(293.7)	**(293.7)**	-	(293.7)
Other comprehensive income net of tax (all attributable to owners of the Company)	-	-	-	55.5	(29.2)	**26.3**	-	26.3
Employee share options:								
Equity settled share-based payments	-	-	-	-	10.3	**10.3**	-	10.3
Deferred and current tax on employee share options	-	-	-	-	(5.4)	**(5.4)**	-	(5.4)
Net movements of treasury shares held by Trust	-	-	-	-	(23.9)	**(23.9)**	-	(23.9)
Shares issued in the period	4.6	446.0	-	-	-	**450.6**	-	450.6
Balance at 31 December 2020	**38.7**	**516.5**	**184.0**	**(270.8)**	**1,884.4**	**2,352.8**	**1.1**	**2,353.9**

The notes to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital $m	Share premium $m	Contributed surplus $m	Currency translation reserve $m	Retained earnings $m	Equity attributable to owners of the Company $m	Non-controlling interest $m	Total equity $m
Balance at 1 January 2019	**34.0**	**57.6**	**184.0**	**(325.3)**	**2,307.6**	**2,257.9**	**1.1**	**2,259.0**
Profit for the year (all attributable to owners of the Company)	-	-	-	-	48.9	**48.9**	-	48.9
Other comprehensive income net of tax (all attributable to owners of the Company)	-	-	-	(1.0)	(13.1)	**(14.1)**	-	(14.1)
Employee share options:								
Equity settled share-based payments	-	-	-	-	3.6	**3.6**	-	3.6
Proceeds from shares issued	-	3.6	-	-	-	**3.6**	-	3.6
Deferred and current tax on employee share options	-	-	-	-	0.2	**0.2**	-	0.2
Shares issued in relation to Scrip Dividend	0.1	9.3	-	-	-	**9.4**	-	9.4
Dividends paid to owners of the Company	-	-	-	-	(120.9)	**(120.9)**	-	(120.9)
Balance at 31 December 2019	**34.1**	**70.5**	**184.0**	**(326.3)**	**2,226.3**	**2,188.6**	**1.1**	**2,189.7**

The notes to the condensed consolidated financial statements are an integral part of this document.

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Condensed consolidated statement of cash flows

For the year ended 31 December 2020

	Note	2020 $m	2019 $m
(Loss)/profit before tax		**(268.5)**	53.1
Adjustments for:			
Net foreign exchange loss/(gain)		**14.5**	(8.5)
Interest and equity dividend income	9	**(107.4)**	(123.7)
Interest expense	11	**44.0**	36.6
Net fair value (gains) on financial assets		**(51.2)**	(70.8)
Depreciation, amortisation and impairment	10	**56.8**	44.6
Charges in respect of share-based payments	10	**10.3**	3.6
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		**633.6**	414.3
Financial assets carried at fair value		**(475.4)**	(405.0)
Financial liabilities carried at fair value		**(0.1)**	(0.5)
Financial liabilities carried at amortised cost		**0.8**	0.8
Other assets and liabilities		**33.3**	14.3
Cash paid to the pension fund		**(30.4)**	(3.6)
Interest received		**102.5**	130.8
Equity dividends received		**1.6**	1.1
Interest paid		**(42.4)**	(36.4)
Current tax paid		**(39.1)**	(11.2)
Net cash (used in)/flows from operating activities		**(117.1)**	39.5
Purchase of property, plant and equipment		**(9.0)**	(6.4)
Proceeds from sale of property, plant and equipment		**8.6**	-
Purchase of intangible assets		**(62.5)**	(90.9)
Proceeds from sale of intangible assets		**10.2**	-
Net cash used in investing activities		**(52.7)**	(97.3)
Proceeds from the issue of ordinary shares		**450.6**	3.6
Shares repurchased		**(23.9)**	-
Distributions made to owners of the Company	15	**-**	(111.6)
Proceeds from drawdown of short term borrowings		**470.0**	-
Repayment of short term borrowings		**(289.4)**	-
Principal elements of lease payments		**(14.5)**	(15.5)
Net cash flows from/(used in) financing activities		**592.8**	(123.5)
Net increase/(decrease) in cash and cash equivalents		**423.0**	(181.3)
Cash and cash equivalents at 1 January		**1,115.9**	1,288.8
Net increase/(decrease) in cash and cash equivalents		**423.0**	(181.3)
Effect of exchange rate fluctuations on cash and cash equivalents		**38.3**	8.4
Cash and cash equivalents at 31 December	18	**1,577.2**	1,115.9

The purchase, maturity and disposal of financial assets is part of the Group's insurance activities and is therefore classified as an operating cash flow. The purchase, maturity and disposal of derivative contracts is also classified as an operating cash flow.
The notes to the condensed consolidated financial statements are an integral part of this document.

Notes to the condensed consolidated financial statements

1. General information

The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the period under review the Group provided insurance and reinsurance services to its clients worldwide. It has operations in Bermuda, the UK, Europe, Asia and the USA and currently has over 3,000 staff.

The Company is registered and domiciled in Bermuda and its ordinary shares are listed on the London Stock Exchange. The address of its registered office is: Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.

2. Basis of preparation

These condensed consolidated financial statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union, and the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Conduct Authority (FCA).

The basis of preparation and summary of accounting policies applicable to the Group's condensed consolidated financial statements can be found in the Note 2 to the 2020 Annual Report and Accounts. The comparative figures are consistent with those presented in the Group's 2019 Annual Report and Accounts. The Group has adopted new and amended accounting standards that are effective for annual periods beginning on or after 1 January 2020 and the adoption of these have no impact on the Group's condensed consolidated financial statements.

The Group's consolidated financial statements from which the condensed financial statements have been extracted have been audited. The auditor's report on the consolidated financial statements is unqualified and does not contain an emphasis-of-matter paragraph.

The condensed consolidated financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the Group's current and forecast solvency and liquidity positions for the next 12 months and beyond. As part of the consideration of the appropriateness of adopting the going concern basis, the Directors use scenario analysis to assess the robustness of the Group's solvency and liquidity positions. To make the assessment, the Group constructed a combined scenario which included applying material sensitivities to (re)insurance claims relating to Covid-19, modelling a significant catastrophe loss and a default in the Group's reinsurance programme. An aggregated scenario such as this, and the sequence of events it involves, is considered to be remote and there are mitigating recovery actions that can be taken to restore the capital position to the Group's target range.

In undertaking this analysis, no material uncertainty in relation to going concern has been identified, due to the Group's strong capital and liquidity positions providing considerable resilience to these shocks, underpinned by the Group's approach to risk management.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence over a period of at least 12 months from the date of this report. For this reason, the Group continues to adopt the going concern basis in preparing the condensed consolidated financial statements.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The condensed consolidated financial statements are presented in US Dollars millions ($m) and rounded to the nearest hundred thousand Dollars, unless otherwise stated.

These condensed consolidated financial statements were approved on behalf of the Board of Directors by the Chief Executive, Bronek Masojada and the Chairman, Robert Childs. Accordingly, the financial statements were approved for issue on 3 March 2021.

2.1. Use of estimates and judgements

In preparing these condensed consolidated financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Estimates and assumptions are continually evaluated and are based on management's knowledge of current facts and circumstances, and their expectations of future events.

Significant accounting estimates

In 2020, Covid-19 has had a significant impact on market conditions and the business. Estimates and their underlying assumptions continue to be reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Where an estimate has been made in response to Covid-19, additional disclosure has been provided in the relevant note to provide context to the figures presented.

The following describes items considered particularly susceptible to changes in estimates and assumptions.

The most critical estimate included within the Group's balance sheet is the estimate for losses incurred but not reported, which is included within insurance liability and reinsurance assets on the balance sheet. The total gross estimate as at 31 December 2020 is $4,571.9 million (2019: $4,017.0 million) and is included within total insurance liabilities on the balance sheet. The total estimate for reinsurers' share of losses incurred but not reported as at 31 December 2020 is $2,227.7 million (2019: $2,106.4 million). Estimates of losses incurred but not reported are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant, and are also updated for expectations of prospective future developments. Between the reporting and final settlement of a claim circumstances may change, which may result in changes to established liability.

The Group tests the adequacy of its unearned premium liability by comparing current estimates of future claims and claims handling expenses attributable to the unexpired periods of policies at the balance sheet date which to the unearned premium liability net of acquisition costs. Any deficiency is recognised in the income statement. The related deferred acquisition costs are first written down and any additional liability required is then recognised as an unexpired risk reserve (URR). In 2020, the Group has recognised a loss due to this test and established an URR. If this estimation were to prove inadequate, the unexpired risk reserve could be understated. The total estimate for URR net of reinsurers' shares as at 31 December 2020 was $22.9 million (2019: nil).Another key estimate contained within the Group's condensed consolidated financial statements is an estimate of gross premium written during the year.

Estimated Premium Income

For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables, which are not known with certainty at the point of binding the policy. In determining the estimated premium, the Group uses information provided by brokers and coverholders, past underwriting experience, the contractual terms of the policy and prevailing market conditions. Subsequently, adjustments to those estimates arise as updated information relating to those pricing variables becomes available, for example due to declarations obtained on binding authority contracts, reinstatement premium on reinsurance contracts or other policy amendments. Such adjustments are recorded in the period in which they are determined and impact gross written premiums in the consolidated income statements and premiums receivable from insureds and cedants recorded on the consolidated balance sheet.

Employee Benefits

The employee retirement benefit scheme obligations are calculated and valued with reference to a number of actuarial assumptions including mortality, inflation rates and discount rate, many of which have been subject to specific recent volatility. This complex set of economic variables can have a significant impact on the financial statements.

Deferred Tax Asset

A deferred tax asset can be recognised only to the extent that it is recoverable. The recoverability of deferred tax assets in respect of carry forward losses requires consideration of the future levels of taxable profit in the Group. In preparing the Group's financial statements, management estimates taxation assets and liabilities after taking appropriate professional advice. Significant estimates and assumptions used in the valuation of deferred tax relate to the forecast taxable profits, taking into account the Group's financial and strategic plans. The deterioration in the economic environment together with significant Covid-19-related claims in 2020 has affected the results of the Group and its subsidiaries for the period, and changed assumptions around the timing of when carried forward losses could be utilised. Therefore, there is an adjustment to derecognise $20 million of carried forward losses.

Significant judgement

A Going concern assessment of whether the Group has adequate resources to continue in operational existence over a period of at least 12 months from the date of the consolidated financial statements. See note 2 'basis of preparation' for further details.

3. Financial, insurance and other risk management

The Group's overall appetite for accepting and managing varying classes of risk is defined by the Group's Board of Directors. The Board has developed a governance framework and has set Group-wide risk management policies and procedures which include risk identification, risk management and mitigation and risk reporting. The objective of these policies and procedures is to protect the Group's shareholders, policyholders and other stakeholders from negative events that could hinder the Group's delivery of its contractual obligations and its achievement of sustainable profitable economic and social performance.

The principal sources of risk relevant to the Group's operations and its financial statements fall into three broad categories: operational risk, insurance risk and financial risk. Please refer to the 2020 consolidated financial statements for more information on risk management.

The Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the Risk Committee and ongoing compliance therewith, through a dedicated internal audit function, which has operational independence, clear terms of reference influenced by the Board's Non Executive Directors and a clear upwards reporting structure back into the Board. The Group, in line with the non-life insurance industry generally, is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity. The Group's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is reasonably predictable. In addition, the majority of material cash outflows are typically triggered by the occurrence of insured events, although the timing, frequency and severity of claims can fluctuate.

Covid-19

The Group continues to monitor and respond to Covid-19, in particular the impact related to our operations, insurance claims, reinsurance assets and investments on the Group's capital and liquidity positions:

- The Group responded quickly to the lockdowns in each location and transitioned to a remote working structure within a few days. The Group's IT infrastructure supported over 95% of its 3,000 employees around the world working from home with no significant impact on trading capabilities or business processes.
- The estimate of insurance claims related to Covid-19 is $475 million net of reinsurance which has been reflected in the consolidated financial statements. This loss estimate along with other insurance claims are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant and are also updated for expectations of prospective future developments.
- The Group utilises a broad, high-quality panel of reinsurers across multiple treaties and actively monitors its credit risk exposure and concentration risk. To date, the Group has not experienced any defaults.
- The Group's investments portfolio remains heavily weighted toward government issued and investment grade corporate debts with minimum exposure to unlisted investments, as detailed in note 16.

During the year, the Group took an action to increase its liquidity position in short-term deposits and similar cash and cash equivalents.

The capital raised from the share issuance in 2020, while predominantly held to better position the business for future growth opportunities, also provided additional strength to the capital and liquidity positions in light of the continued uncertainty arising from Covid-19.

4. Seasonality and weather

Historically, the Group's most material exposure to catastrophe losses on certain lines of business such as reinsurance inwards and marine and major property risk have been greater during the second half of the calendar year, broadly in line with the most active period of the North Atlantic hurricane season. In contrast, a majority of gross premium income written in these lines of business occurs during the first half of the calendar year. The Group actively participates in many regions and if any catastrophic events do occur, it is likely that the Group will share some of the market's losses. Consequently, the potential for significantly greater volatility in expected returns remains during the second half of the year. Details of the Group's recent exposures to these classes of business are disclosed in the Group's 2020 Report and Accounts.

5. Related-party transactions

Transactions with related parties during the period are disclosed in note 33 of the Group's 2020 Report and Accounts.

6. Operating segments

The Group's operating segment reporting follows the organisational structure and management's internal reporting systems, which form the basis for assessing the financial reporting performance of, and allocation of resource to each business segment.

The Group's four primary business segments are identified as follows:

Hiscox Retail brings together the results of the Group's retail business divisions in the UK, Europe, USA and Asia, as well as Hiscox Special Risks. Hiscox UK and Hiscox Europe underwrite personal and commercial lines of business through Hiscox Insurance Company Limited and Hiscox Société Anonyme (Hiscox SA), together with the fine art and non-US household insurance business written through Syndicate 33. Hiscox Europe excludes the kidnap and ransom business written by Hiscox SA. Hiscox Special Risks has traditionally comprised the specialty and fine art lines written through Hiscox Insurance Company (Guernsey) Limited and the European kidnap and ransom business written by Hiscox SA and Syndicate 33. Hiscox USA comprises commercial, property and specialty business written by Hiscox Insurance Company Inc. and Syndicate 3624, however, in late 2020 we restructured our Special Risks division, integrating its activities with Hiscox Europe, Hiscox USA and Hiscox London Market.

Hiscox London Market comprises the internationally traded insurance business written by the Group's London-based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines, excluding the kidnap and ransom business. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage and aviation business, however these are in run-off.

Hiscox Re & ILS is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda and London. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts written in the Bermuda hub on Syndicate capacity are also included. The segment also includes the performance and fee income from the ILS funds, along with the gains and losses made as a result of the Group's investment in the funds.

Corporate Centre comprises finance costs and administrative costs associated with Group management activities and intragroup borrowings, as well as all foreign exchange gains and losses. The segment includes results from run-off portfolios where the Group has ceded all insurance risks to third-party reinsurers.

All amounts reported below represent transactions with external parties only. In the normal course of trade, the Group's entities enter into various reinsurance arrangements with one another. The related results of these transactions are eliminated on consolidation and are not included within the results of the segments. This is consistent with the information used by the chief operating decision-maker when evaluating the results of the Group. Performance is measured based on each reportable segment's profit before tax.

In 2020, the Group has further refined how it manages and evaluates the performance of the business units. All foreign exchange gains and losses are managed centrally. Therefore the foreign gains and losses are now fully allocated to and presented in the segmental reporting within Corporate Centre. Comparative figures have been re-presented to reflect this change, along with the previously reported figures where the foreign exchange gains and losses were allocated to each segment to aid comparability.This change has no effect on the Group IFRS results or financial position.

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6. Operating segments (continued)

Year to 31 December 2020

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Gross premiums written	2,266.3	1,023.4	743.4	-	**4,033.1**
Net premiums written	1,986.8	570.9	192.7	-	**2,750.4**
Net premiums earned	1,975.5	548.6	228.1	-	**2,752.2**
Investment result	107.3	56.6	33.6	-	**197.5**
Other income	21.4	13.8	12.5	2.5	**50.2**
Total income	2,104.2	619.0	274.2	2.5	**2,999.9**
Claims and claim adjustment expenses, net of reinsurance	(1,395.6)	(294.4)	(232.7)	-	**(1,922.7)**
Expenses for the acquisition of insurance contracts	(539.0)	(148.4)	(26.5)	-	**(713.9)**
Operational expenses	(405.9)	(78.9)	(49.1)	(39.1)	**(573.0)**
Net foreign exchange losses	-	-	-	(14.5)	**(14.5)**
Total expenses	(2,340.5)	(521.7)	(308.3)	(53.6)	**(3,224.1)**
Results of operating activities	(236.3)	97.3	(34.1)	(51.1)	**(224.2)**
Finance costs	(1.3)	(0.1)	(1.0)	(41.6)	**(44.0)**
Share of loss of associates after tax	-	-	-	(0.3)	**(0.3)**
(Loss)/(profit) before tax	(237.6)	97.2	(35.1)	(93.0)	**(268.5)**
100% ratio analysis†					
Claims ratio (%)	72.2	54.1	99.0	-	**70.0**
Expense ratio (%)	47.8	39.6	32.8	-	**44.5**
Combined ratio (%)^	120.0	93.7	131.8	**-**	**114.5**

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6. Operating segments (continued)

Year to 31 December 2019 (restated)*

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Gross premiums written	2,196.3	967.9	866.5	-	**4,030.7**
Net premiums written	1,957.5	504.6	216.7	-	**2,678.8**
Net premiums earned	1,895.1	527.9	212.6	-	**2,635.6**
Investment result	133.9	50.6	38.5	-	**223.0**
Other income	29.0	9.0	12.7	2.4	**53.1**
Total income	2,058.0	587.5	263.8	2.4	**2,911.7**
Claims and claim adjustment expenses, net of reinsurance	(929.7)	(356.1)	(290.3)	-	**(1,576.1)**
Expenses for the acquisition of insurance contracts	(497.0)	(147.9)	(16.1)	-	**(661.0)**
Operational expenses	(460.9)	(59.2)	(63.6)	(9.8)	**(593.5)**
Net foreign exchange gains	-	-	-	8.5	**8.5**
Total expenses	(1,887.6)	(563.2)	(370.0)	(1.3)	**(2,822.1)**
Results of operating activities	170.4	24.3	(106.2)	1.1	**89.6**
Finance costs	(1.2)	(1.0)	(1.4)	(33.0)	**(36.6)**
Share of profit of associates after tax	-	-	-	0.1	**0.1**
Profit/(loss) before tax	169.2	23.3	(107.6)	(31.8)	**53.1**
100% ratio analysis †					
Claims ratio (%)	48.9	66.3	132.8	-	**60.4**
Expense ratio (%)	50.4	39.3	37.1	-	**46.4**
Combined ratio (%)^	99.3	105.6	169.9	**-**	**106.8**

* In 2020, the Group has further refined how it manages and evaluates the performance of the different businesses segments. All foreign exchange gains and losses are therefore allocated to, and managed by, Corporate Centre. To align external reporting to management reporting, the foreign exchange gains and losses are presented in the segmental reporting within Corporate Centre. Comparative figures have been re-presented to reflect this management view, along with the previously reported figures where the foreign exchange gains and losses were allocated to each segment to aid comparability. This change has no effect on the Group IFRS results or financial position.

† The Group's percentage participation in Syndicate 33 can fluctuate from year-to-year and consequently, presentation of the results at the 100% level removes any distortions arising therefrom.

^ The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts, operational expenses, including profit-related pay as a proportion of net premiums earned. The combined ratio is the total of the claims and expenses ratios.

Costs allocated to Corporate Centre are non-underwriting related costs and are not included within the combined ratio.

6. Operating segments (continued)

The tables presented below contain the net earned premium, claims, expenses and foreign exchange items at 100% ownership, to enable calculation of the ratios included in the operating segments.

Year to 31 December 2020

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Net premiums earned	2,007.6	753.1	269.4	-	3,030.1
Claims and claim adjustment expenses, net of reinsurance	(1,449.1)	(407.3)	(266.7)	-	(2,123.1)
Expenses for the acquisition of insurance contracts	(550.6)	(200.0)	(32.9)	-	(783.5)
Operational expenses	(409.8)	(98.5)	(55.6)	(38.9)	(602.8)
Net foreign exchange losses	-	-	-	(12.6)	(12.6)

Year to 31 December 2019

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Net premiums earned	1,934.4	721.6	249.4	-	2,905.4
Claims and claim adjustment expenses, net of reinsurance	(945.5)	(478.6)	(331.3)	-	(1,755.4)
Expenses for the acquisition of insurance contracts	(509.2)	(205.1)	(20.7)	-	(735.0)
Operational expenses	(464.9)	(78.2)	(71.6)	(9.8)	(624.5)
Net foreign exchange gains	-	-	-	11.1	11.1

As previously reported*	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Net foreign exchange gains/(losses)	9.2	7.1	13.8	(21.6)	8.5
Profit/(loss) before tax	178.4	30.4	(93.8)	(61.9)	53.1
100% ratio analysis					
Claims ratio (%)	48.9	66.3	132.8	-	60.4
Expense ratio	49.8	38.1	31.1	-	45.3
Combined ratio (%)	98.7	104.4	163.9	-	105.7

*See note 6 on page 17 for further details

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7. Net asset value per share and net tangible asset value per share

	2020		2019	
	Net asset value (total equity)	**Net asset value per share cents**	Net asset value (total equity)	Net asset value per share cents
	$m		$m	
Net asset value	**2,353.9**	**689.0**	2,189.7	768.2
Net tangible asset value	**2,055.0**	**601.5**	1,911.7	670.6

The net asset value per share is based on 341,647,634 shares (2019: 285,051,997 shares), being the shares in issue at 31 December 2020, less those held in treasury and those held by the Group Employee Benefit Trust.

Net tangible assets comprise total equity excluding intangible assets. The net asset value per share expressed in pence is 503.9p (2019: 580.1p).

8. Return on equity

	2020 $m	2019 $m
(Loss)/profit for the year (all attributable to owners of the Company)	**(293.7)**	48.9
Opening total equity	**2,189.7**	2,259.0
Adjusted for the time-weighted impact of capital distributions and issuance of shares	**307.8**	(52.3)
Adjusted opening total equity	**2,497.5**	2,206.7
Return on equity (%)	**(11.8)**	2.2

The return on equity is calculated by using profit for the period divided by the adjusted opening total equity. The adjusted opening total equity represents the equity on 1 January of the relevant year as adjusted for time weighted aspects of capital distributions and issuing of shares or treasury share purchases during the period. The time weighted positions are calculated on a daily basis with reference to the proportion of time from the transaction to the end of the period.

9. Investment result

i. Analysis of investment result

The total investment result for the Group comprises:

	2020 $m	2019 $m
Investment income including interest receivable	**107.4**	123.7
Net realised gains on financial investments at fair value through profit or loss	**45.5**	34.4
Net fair value gains on financial investments at fair value through profit or loss	**51.2**	73.0
Investment result – financial assets	**204.1**	231.1
Net fair value losses on derivative financial instruments	**(2.1)**	(2.2)
Investment expenses	**(4.5)**	(5.9)
Total result	**197.5**	223.0

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9. Investment result (continued)

ii. Investment return

	2020		2019	
	Return $m	**Yield %**	Return $m	Yield %
Debt and fixed income securities	**141.3**	**2.8**	161.8	3.4
Equities and investment funds	**58.4**	**10.8**	61.4	13.3
Deposits with credit institutions/cash and cash equivalents	**4.4**	**0.3**	7.9	0.7
Investment result – financial assets	**204.1**	**2.8**	231.1	3.6

10. Other income and operational expenses

	2020 $m	2019 $m
Agency-related income	**22.1**	28.6
Profit commission	**1.5**	3.9
Other underwriting income	**2.5**	0.9
Other income	**24.1**	19.7
Other income	**50.2**	53.1
Wages and salaries	**188.7**	192.3
Social security costs	**33.1**	33.9
Pension cost – defined contribution	**13.1**	16.7
Pension cost – defined benefit	**1.1**	1.0
Share-based payments	**10.3**	3.6
Temporary staff costs	**40.2**	49.6
Travel and entertainment	**6.2**	20.6
Legal and professional	**63.0**	40.7
Office costs	**15.7**	12.7
Computer costs	**58.6**	70.4
Marketing expenses	**59.4**	88.9
Depreciation, amortisation and impairment	**56.8**	44.6
Other expenses	**26.8**	18.5
Operational expenses	**573.0**	593.5

Wages and salaries have been shown net of transfers to acquisition and claims expenses.

11. Finance costs

	2020 $m	2019 $m
Interest charge associated with borrowings	**28.6**	28.7
Interest and expenses associated with bank borrowing facilities	**10.7**	3.2
Interest and charges associated with Letters of Credit	**2.4**	2.0
Other interest expenses*	**2.3**	2.7
	44.0	36.6

*Including interest expenses on lease liabilities of $1.4 million (2019: $1.8 million).

As at 31 December 2020, the total amount drawn by way of Letter of Credit to support the Funds at Lloyd's requirement was $266 million (2019: $50 million).

12. Tax expense

The Company and its subsidiaries are subject to enacted tax laws in the jurisdictions in which they are incorporated and domiciled.

The amounts charged in the condensed consolidated income statement comprise the following:

	2020 $m	2019 $m
Current tax expense	**13.2**	29.0
Deferred tax expense/(credit)	**12.0**	(24.8)
Total tax charged to the income statement	**25.2**	4.2

13. Insurance liabilities and reinsurance assets

	2020 $m	2019 $m
Gross		
Claims and claim adjustment expenses	**7,259.9**	6,276.0
Unexpired risk reserve	**31.5**	-
Unearned premiums	**1,822.0**	1,818.5
Total insurance liabilities, gross	**9,113.4**	8,094.5
Recoverable from reinsurers		
Claims and claim adjustment expenses	**3,204.4**	2,921.0
Unexpired risk reserve	**8.6**	-
Unearned premiums	**431.6**	465.9
Total reinsurers' share of insurance liabilities	**3,644.6**	3,386.9
Net		
Claims and claim adjustment expenses	**4,055.5**	3,355.0
Unexpired risk reserve	**22.9**	-
Unearned premiums	**1,390.4**	1,352.6
Total insurance liabilities, net	**5,468.8**	4,707.6

There are many risks associated with insurance contracts, and this means that there is a considerable amount of uncertainty in estimating the future settlement cost of claims. There is uncertainty in both the amounts and the timing of future claim payment cash flows.

Claims paid are claims transactions settled up to the reporting date including settlement expenses allocated to those transactions.

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13. Insurance liabilities and reinsurance assets (continued)

Unpaid claims reserves are made for known or anticipated liabilities which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims.

The Group relies on actuarial analysis to estimate the settlement cost of future claims. Via a formal governed process, there is close communication between the actuaries and other key stakeholders, such as the underwriters, claims and finance teams when setting and validating the assumptions. The unpaid claims reserve is estimated based on past experience and current expectations of future cost levels. Allowance is made for the current premium rating and inflationary environment.

The claim reserves are estimated on a best estimate basis, taking into account current market conditions and the nature of risks being underwritten.
Under certain insurance contracts, the Group may be permitted to sell property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). If it is certain a recovery or reimbursement will be made at the valuation date, specific estimates of these salvage and/or subrogation amounts are included as allowances in the measurement of the insurance liability for unpaid claims. This is then recognised in insurance and reinsurance receivables when the liability is settled.

Estimates of where claim liabilities will ultimately settle are adjusted each reporting period to reflect emerging claims experience. Changes in expected claims may result in a reduction or an increase in the ultimate claim costs and a release or an increase in reserves in the period in which the change occurs.

Booked reserves are held above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy. This approach is consistent with last year. The margin included in the insurance liabilities at 31 December 2020 was 9.8% above the best estimate (2019: 9.4%)

In response to the Covid-19 pandemic, the Group reviewed and assessed the potential implications for each class of business that the Group underwrites, across all its platforms, with involvement from underwriting, reserving, claims and finance teams. The output of this assessment formed the basis of reserving.

The Group has material exposure to losses arising out of the Covid-19 pandemic and currently reserves $475 million net of reinsurance for these claims (Hiscox Retail: $398 million, Hiscox London Market: $13 million and Hiscox Re & ILS: $64 million on Group's share basis). The Covid-19 pandemic is an unprecedented event for the insurance industry and the effects of it as a loss event to the insurance and reinsurance markets remain both ongoing and uncertain. The ultimate amounts of these claims are subject to a higher than normal level of uncertainty in the best estimate at this stage of development. Consequentially, in measuring the liabilities, the Group has included an allowance for risk and uncertainties that is above the best estimate to reflect the early stage in the claim development process.

In determining the Covid-19 related net claims, the Group estimates the reinsurers' share of the claims by applying a consistent set of assumptions with those in determining the gross claims, considering the individual wording of the reinsurance treaties, and estimating default risks. Changes to this set of assumptions and estimate could materially affect the amount of reinsurers' share of the claims.

Lloyd's Part VII transfer

On 30 December 2020, the members and former members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019, transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the members of the Syndicate entered into a 100% quota share reinsurance agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate, which wrote the transferring policies and/or inherited liabilities on transferring policies through reinsurance to close of earlier years of account.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the members and former members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of $154.8 million. On the same date, under the reinsurance agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of $154.8 million and non-cash assets relating to the transferred liabilities. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement no net impact on the balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the income statement presentation. Outstanding debtor and creditor balances in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the inwards reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels.

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13. Insurance liabilities and reinsurance assets (continued)

The development of net claims reserves by accident years are detailed below.

Insurance claims and claim adjustment expenses reserves – net of reinsurance at 100%

Accident year	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	**2020 $m**	**Total $m**
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:	1,515.0	1,187.8	1,140.0	1,185.3	1,260.2	1,477.1	1,857.2	1,815.3	1,812.1	2,234.8	15,484.8
one year later	1,401.3	1,046.7	1,012.5	1,042.1	1,166.0	1,338.7	1,639.3	1,855.5	1,751.7	-	12,253.8
two years later	1,346.1	971.5	910.2	946.6	1,069.4	1,266.3	1,623.1	1,801.6	-	-	9,934.8
three years later	1,342.3	936.4	843.4	890.8	1,062.0	1,294.0	1,665.1	-	-	-	8,034.0
four years later	1,332.6	926.8	840.2	863.2	1,061.5	1,331.0	-	-	-	-	6,355.3
five years later	1,280.0	947.5	812.7	842.1	1,088.8	-	-	-	-	-	4,971.1
six years later	1,243.8	936.3	812.0	836.7	-	-	-	-	-	-	3,828.8
seven years later	1,210.2	913.9	811.5	-	-	-	-	-	-	-	2,935.6
eight years later	1,190.0	902.6	-	-	-	-	-	-	-	-	2,092.6
nine years later	1,190.0	-	-	-	-	-	-	-	-	-	1,190.0
Current estimate of cumulative claims	1,190.0	902.6	811.5	836.7	1,088.8	1,331.0	1,665.1	1,801.6	1,751.7	2,234.8	13,613.8
Cumulative payments to date	(1,178.1)	(833.5)	(764.7)	(722.3)	(880.2)	(1,046.1)	(1,257.1)	(1,234.2)	(832.1)	(496.0)	(9,244.3)
Liability recognised at 100% level	11.9	69.1	46.8	114.4	208.6	284.9	408.0	567.4	919.6	1,738.8	4,369.5
Liability recognised in respect of prior accident years at 100% level											**137.3**
Total net liability to external parties at 100% level**											**4,506.8**

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2020.

** Excluding the unexpired risk reserve of $31.6 million net at 100%.

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13. Insurance liabilities and reinsurance assets (continued)

Reconciliation of 100% disclosures above to Group's share – net of reinsurance

Accident year	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	**2020 $m**	**Total $m**
Current estimate of cumulative claims	1,190.0	902.6	811.5	836.7	1,088.8	1,331.0	1,665.1	1,801.6	1,751.7	2,234.8	13,613.8
Less: attributable to external Names	(159.4)	(93.2)	(80.2)	(81.0)	(112.5)	(125.7)	(155.4)	(168.3)	(183.3)	(240.7)	(1,399.7)
Group's share of current ultimate claims estimate	1,030.6	809.4	731.3	755.7	976.3	1,205.3	1,509.7	1,633.3	1,568.4	1,994.1	12,214.1
Cumulative payments to date	(1,178.1)	(833.5)	(764.7)	(722.3)	(880.2)	(1,046.1)	(1,257.1)	(1,234.2)	(832.1)	(496.0)	(9,244.3)
Less: attributable to external Names	152.7	86.1	74.9	73.8	92.3	101.3	115.9	125.3	96.3	61.0	979.6
Group share of cumulative payments	(1,025.4)	(747.4)	(689.8)	(648.5)	(787.9)	(944.8)	(1,141.2)	(1,108.9)	(735.8)	(435.0)	(8,264.7)
Liability for 2011 to 2020 accident years recognised on Group's balance sheet	5.2	62.0	41.5	107.2	188.4	260.5	368.5	524.4	832.6	1,559.1	3,949.4
Liability for accident years before 2011 recognised on Group's balance sheet											**106.1**
Total Group liability to external parties included in balance sheet – net*†											**4,055.5**

* This represents the claims element of the Group's insurance liabilities.

† Excluding the unexpired risk reserve of $22.9 million.

14. Earnings per share

Basic
Basic (loss)/earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held by the Group and held in treasury as own shares.

	2020	2019
(Loss)/profit for the year attributable to owners of the Company ($m)	**(293.7)**	48.9
Weighted average number of ordinary shares (thousands)	**320,562**	284,015
Basic (loss)/earnings per share (cents per share)	**(91.6)¢**	17.2¢
Basic (loss)/earnings per share (pence per share)	**(71.5)p**	13.5p

Diluted
Diluted (loss)/earnings per share is calculated by adjusting for the assumed conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options and awards. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2020	2019
(Loss)/profit for the year attributable to owners of the Company ($m)	**(293.7)**	48.9
Weighted average number of ordinary shares in issue (thousands)	**320,562**	284,015
Adjustments for share options (thousands)	**3,498**	4,361
Weighted average number of ordinary shares for diluted (loss)/earnings per share (thousands)	**324,060**	288,376
Diluted (loss)/earnings per share (cents per share)	**(90.6)¢**	16.9¢
Diluted (loss)/earnings per share (pence per share)	**(70.7)p**	13.3p

Diluted (loss)/earnings per share has been calculated after taking account of 3,431,623 (2019: 4,067,881) Performance Share Plan awards and 66,010 (2019: 293,028) options under Save As You Earn schemes.

15. Dividends paid to owners of the Company

	2020 **$m**	2019 $m
Final dividend for the year ended:		
31 December 2018 of 28.6¢ (net) per share	**-**	81.4
Interim dividend for the year ended:		
31 December 2019 of 13.75¢ (net) per share	**-**	39.5
	-	120.9

As announced on 8 April 2020, in order to help the Group serve the needs of businesses through the extraordinary challenges presented by Covid-19, and with the support of the regulators, the Hiscox Ltd Board took the decision that the resolution to approve the 2019 final dividend of 29.6 cents per share, which was scheduled for payment on 10 June 2020, would not be put to shareholders at the Annual General Meeting (AGM).

When determining the level of dividend each year, the Board considers the ability of the Group to generate cash; the availability of that cash in the Group, while considering constraints such as regulatory capital requirements and the level required to invest in the business. This is a progressive policy and is expected to be maintained for the foreseeable future.

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15. Dividends paid to owners of the Company (continued)

The Board also agreed that, for 2020, the Group would not propose an interim dividend payment, or conduct any further share buybacks. In addition, the Board has not declared a final dividend for the year ended 31 December 2020 (2019: $75.2 million and 296,044 shares for the scrip dividend). The interim dividends for 2019 were either paid in cash or issued as a scrip dividend at the option of the shareholder (2020: $nil; 2019: $36.4 million and 157,487 shares for the scrip dividend).

2019 interim dividends were declared in US Dollars, aligning shareholder returns with the primary currency in which the Group generates cash flow. The foreign exchange rates for dividends declared in US Dollars have been calculated based on the average exchange rate in the five business days prior to the scrip dividend price being determined. Historically, dividends have been paid in Sterling unless shareholders elect to be paid in US Dollars.

16. Financial assets and liabilities

i. Analysis of financial assets carried at fair value

	2020 $m	2019 $m
Debt and fixed income securities	**5,474.5**	4,989.9
Equities and investment funds	**578.3**	486.4
Deposits with credit institutions	**-**	-
Total investments	**6,052.8**	5,476.3
Insurance-linked funds	**63.2**	61.2
Derivative financial instruments	**0.8**	1.5
Total financial assets carried at fair value	**6,116.8**	5,539.0

ii. Analysis of financial liabilities carried at fair value

	2020 $m	2019 $m
Derivative financial instruments	**0.6**	0.6
Total financial liabilities carried at fair value	**0.6**	0.6

iii. Analysis of financial liabilities carried at amortised cost

	2020 $m	2019 $m
Borrowings	**943.3**	725.6
Accrued interest on borrowings	**2.8**	2.6
Total financial liabilities carried at amortised cost	**946.1**	728.2

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16. Financial assets and liabilities (continued)

On 24 November 2015, the Group issued £275.0 million 6.125% fixed-to-floating rate callable subordinated notes due 2045, with a first call date of 2025.

The notes bear interest from, and including, 24 November 2015 at a fixed rate of 6.125% per annum annually in arrears starting 24 November 2016 up until the first call date in November 2025 and thereafter at a floating rate of interest equal to three-month LIBOR plus 5.076% payable quarterly in arrears on each floating interest payment date.

On 25 November 2015 the notes were admitted for trading on the London Stock Exchange’s regulated market. The notes were rated BBB- by S&P as well as by Fitch.

On 14 March 2018, the Group issued £275.0 million 2% notes due December 2022. The notes will be redeemed on the maturity date at their principal amount together with accrued interest.

The notes bear interest from, and including, 14 March 2018 at a fixed rate of 2% per annum annually in arrears starting 14 December 2018 until maturity on 14 December 2022.

On 14 March 2018, the notes were admitted for trading on the Luxembourg Stock Exchange's Euro MTF. The notes were rated BBB+ by S&P as well as by Fitch.

The fair value of the borrowings is estimated at $822.6 million (2019: $787.3 million). The fair value measurement is classified within Level 1 of the fair value hierarchy. The fair value is estimated by reference to the actively traded value on the stock exchanges.

The increase in the carrying value of the borrowings and accrued interest during the year comprises new short-term borrowings of $180.6 million (2019: $nil), the amortisation of the difference between the net proceeds received and the redemption amounts of $0.8 million (2019: $0.8 million) the movement in accrued interest of $0.1 million (2019: $0.2 million) plus exchange movements of $36.4 million (2019: plus exchange movements of $27.8 million).

iv. Investment and cash allocation

	2020		2019	
	$m	**%**	$m	%
Debt and fixed income securities	**5,474.5**	**71.7**	4,989.9	75.7
Equities and investment funds	**578.3**	**7.6**	486.4	7.4
Deposits with credit institutions / cash and cash equivalents	**1,577.2**	**20.7**	1,115.9	16.9
Total	**7,630.0**		6,592.2	

v. Total investments and cash allocation by currency

	2020 **%**	2019 %
US Dollars	**63.8**	64.8
Sterling	**22.3**	22.1
Euro	**10.5**	8.7
Other	**3.4**	4.4

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17. Fair value measurements

In accordance with IFRS 13 *Fair Value Measurement,* the fair value of financial instruments based on a three-level fair value hierarchy that reflects the significance of the inputs used in measuring the fair value, is set out below.

As at 31 December 2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial Assets				
Debt and fixed income securities	1,118.8	4,355.7	-	5,474.5
Equities and investment funds	-	532.8	45.5	578.3
Insurance-linked funds	-	-	63.2	63.2
Derivative financial instruments	-	0.8	-	0.8
Total	1,118.8	4,889.3	108.7	6,116.8
Financial Liabilities				
Derivative financial instruments	-	0.6	-	0.6
Total	-	0.6	-	0.6

As at 31 December 2019	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial Assets				
Debt and fixed income securities	1,495.9	3,494.0	-	4,989.9
Equities and investment funds	-	467.9	18.5	486.4
Insurance-linked funds	-	-	61.2	61.2
Derivative financial instruments	-	1.5	-	1.5
Total	1,495.9	3,963.4	79.7	5,539.0
Financial Liabilities				
Derivative financial instruments	-	0.6	-	0.6
Total	-	0.6	-	0.6

17. Fair value measurements (continued)

The levels of the fair value hierarchy are defined by the standard as follows:

- Level 1 – fair values measured using quoted prices (unadjusted) in active markets for identical instruments;
- Level 2 – fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on market observable data;
- Level 3 – fair values measured using valuation techniques for which significant inputs are not based on market observable data.

The fair values of the Group's financial assets are typically based on prices from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

Investments in mutual funds, which are included in equities and investment funds comprise a portfolio of stock investments in trading entities which are invested in various quoted and unquoted investments. The fair value of these investment funds are based on the net asset value of the fund as reported by independent pricing sources or the fund manager. Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, borrowings and exchange-traded equities which are measured based on quoted prices in active markets. The fair value of the borrowings that is carried at amortised cost, is estimated at $822.6 million (2019: $787.3 million) and is considered as Level 1 in the fair value hierarchy.

Level 2 of the hierarchy contains certain government bonds, US government agencies, corporate securities, asset-backed securities and mortgage-backed securities. The fair value of these assets is based on the prices obtained from independent pricing sources, investment managers and investment custodians as discussed above. The Group records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and the valuation used by external parties to derive fair value. Quoted prices for US government agencies and corporate securities are based on a limited number of transactions for those securities and as such the Group considers these instruments to have similar characteristics to those instruments classified as Level 2. Also included within Level 2 are units held in collective investment vehicles investing in traditional and alternative investment strategies and over-the-counter derivatives.

Level 3 contains investments in a limited partnership, unquoted equity securities and insurance-linked funds which have limited observable inputs on which to measure fair value. Unquoted equities, including equity instruments in limited partnerships are carried at fair value. Fair value is determined to be net asset value for the limited partnerships, and for the equity holdings it is determined to be the latest available traded price. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant. At 31 December 2020, the insurance-linked fund of $63.2 million represents the Group's investment in the Kiskadee Funds (2019: $61.2 million).

The fair value of the Kiskadee Funds is estimated to be the net asset value as at the balance sheet date. The net asset value is based on the fair value of the assets and liabilities in the Fund. The majority of the assets of the Funds are cash and cash equivalents. Significant inputs and assumptions in calculating the fair value of the assets and liabilities associated with reinsurance contracts written by the Kiskadee Funds include the amount and timing of claims payable in respect of claims incurred and periods of unexpired risk. The Group has considered changes in the net asset valuation of the Kiskadee Funds if reasonably different inputs and assumptions were used and has found that a 12% decrease in fair value of the liabilities would increase the fair value of the fund by $9.8m. Similarly, a 12% increase in fair value of liabilities would decrease the fair value of the fund by $9.5m.

In certain cases, the inputs used to measure the fair value of a financial instrument may fall into more than one level within the fair value hierarchy. In this instance, the fair value of the instrument in its entirety is classified based on the lowest level of input that is significant to the fair value measurement.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the relevant reporting period during which the transfers are deemed to have occurred.

During the year, there were no transfers made between Level 1, Level 2 or Level 3 of the fair value hierarchy.

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17. Fair value measurements (continued)

The following table sets forth a reconciliation of opening and closing balances for financial instruments classified under Level 3 of the fair value hierarchy:

			31 December 2020 Financial assets
	Equities and investment funds	**Insurance-linked funds**	**Total**
	$m	**$m**	**$m**
Balance at 1 January	**18.5**	**61.2**	**79.7**
Fair value gains or losses through profit or loss*	**(5.4)**	**2.7**	**(2.7)**
Foreign exchange gains	**1.9**	**-**	**1.9**
Purchases	**30.8**	**2.6**	**33.4**
Settlements	**(0.3)**	**(3.3)**	**(3.6)**
Closing balance	**45.5**	**63.2**	**108.7**
Unrealised gains and (losses) in the year on securities held at the end of the year	**(0.4)**	**2.7**	**2.3**

*Fair value gains/(losses) are included within the investment result in the income statement for equities and investment funds and through other income for the insurance-linked fund.

			31 December 2019 Financial assets
	Equities and investment funds	Insurance-linked funds	Total
	$m	$m	$m
Balance at 1 January	18.9	55.2	74.1
Fair value gains or losses through profit or loss*	0.2	0.7	0.9
Foreign exchange gains	0.5	-	0.5
Purchases	0.7	5.5	6.2
Settlements	(1.8)	(0.2)	(2.0)
Closing balance	18.5	61.2	79.7
Unrealised gains and (losses) in the year on securities held at the end of the year	(0.1)	0.7	0.6

*Fair value gains/(losses) are included within the investment result in the income statement for equities and investment funds and through other income for the insurance-linked fund.

18. Condensed consolidated cash flow statement

Included within cash and cash equivalents held by the Group are balances totalling $172 million (2019: $167 million) not available for immediate use by the Group outside of the Lloyd's syndicate within which they are held. Additionally, $9 million (2019: $41 million) is pledged cash held against Funds at Lloyd's, and $0.5 million (2019: $0.3 million) held within trust funds against reinsurance arrangements.