Hiscox Climate Report 2021

Hiscox is a diversified international insurance group with a powerful brand, strong balance sheet and plenty of room to grow. We are headquartered in Bermuda, listed on the London Stock Exchange, and currently have over 3,000 staff across 14 countries and 35 offices. Our products and services reach every continent, and we are one of the only insurers to offer everything from small business and home insurance to reinsurance and insurance-linked securities.

This report includes information on our progress over the 12 months since our last climate report was published. As such, the information contained in the pages that follow covers our climate-related activity between July 2020 and July 2021.

Foreword from our ESG Executive Sponsor

James Millard
Group Chief Investment Officer
ESG Executive Sponsor

In my first year as the Group's ESG Executive Sponsor, I have been proud of the progress we have made on ESG issues, including climate-related matters, even during what has been an extraordinary 12 months as we adjust to new ways of living and working amidst a global pandemic.

We have taken transformational steps when it comes to how we play our part in supporting an orderly transition to a low-carbon economy. Our new ESG exclusions policy outlines our commitment to reduce steadily 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.

The responsible investment policy we established in 2020 supports this approach. While our exclusions policy officially comes into force from 1 January 2022, its operationalisation has in fact begun and we are already declining new risks that are no longer within our underwriting appetite and actively minimising exposure in our investment portfolios. Going forward, we will balance this approach with our growing appetite for sustainable ventures such as renewable energy and crop insurance, alongside increasing exposure to sustainable investments.

We have also achieved our greenhouse gas emission reduction targets to 2020, set against a 2014 baseline – having reduced our Scope 1, 2 and 3 emissions by 45% per full-time employee. Some of this achievement is as a result of the positive impact that Covid-19 has had on reducing business travel, which has historically been a significant contributor to our emissions, but there is underlying progress too. This insight is informing our development of new targets, aligned to the globally recognised Science Based Targets initiative (SBTi), which we aim to publish later in the year.

There is more to do of course, and our current plans include ESG and climate-related awareness training; extending the reach of our charitable giving in relation to environmental causes; and embedding the work of our new Sustainability Steering Committee. Scrutiny and interest in ESG and climate issues is growing amongst many of our stakeholders, not least our investors, business partners and employees, but so too is their enthusiasm and passion for progress which we share.

This report is designed to lift the lid on all of our climate-related work – whether it relates to how we invest and underwrite, how we manage our office buildings, how we share our climate expertise, or how we influence on climate-related matters. I hope you find this report useful, and if you'd like to find out more about our work around being a responsible business, please visit our website www.hiscoxgroup.com.

Recent highlights
Key achievements from the last year.

ESG exclusions policy
Commitment to reduce steadily and eliminate by 2030 our exposure to coal, Arctic energy exploration (beginning in the ANWR region), oil sands and controversial weapons across (re)insurance and investments.

Responsible investment policy
Sets out our expectations of our asset managers, including adherence to recognised standards such as the PRI, engagement on ESG issues, considering ESG in decision-making, and impact investing.

Achieved GHG reduction target
Completed a 45% real-term reduction in Scope 1, 2 and 3 emissions per full-time employee between 2014 and 2020, with new SBTi-aligned targets in development.

Evolving climate accountability
New Sustainability Steering Committee established, chaired by the Group Chief Executive Officer and comprising c-suite membership, initially focussing on climate change.

Increased climate disclosures
Made new disclosures including to the Bermuda Monetary Authority (BMA), our Group regulator, on climate change impact and preparedness across underwriting, investments and risk management.

Sharing climate expertise
Group Chief Executive Officer involvement in His Royal Highness The Prince of Wales's Sustainable Markets Initiative Insurance Task Force to accelerate sustainable industry transition and decarbonisation.

Supporting climate causes
Gave over $9 million to good causes, including to Bees for Development, London Wildlife Trust, and Whale and Dolphin Conservation as part of our focus on 'protecting and preserving the environment'.

Driving climate awareness
Established a pilot scheme with US employees through Karma Wallet to increase awareness of spending habits and their impact on GHG emissions.

Recent highlights
The last 12 months in numbers.

2

Two new climate-related policies.

1

One new Group-wide approach to underwriting and investment exclusions.

3%

3% of our bond portfolio invested in green, social, sustainability or ESG KPI linked bonds.

45%

45% reduction in Scope 1, 2 and 3 emissions per employee.

6

Sixth year as an operationally carbon neutral business.

6,665

6,665 tCO_2e offset for 2020.

3

Three focus groups with Non Executive Directors on ESG and climate-related issues.

1 in 10

One-in-ten eligible employees signed up to our first UK Cycle to Work scheme.

4

Four formal Board discussions on climate-related issues.

ESG framework

Setting out the principles that guide us, and the themes that are important to us.

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

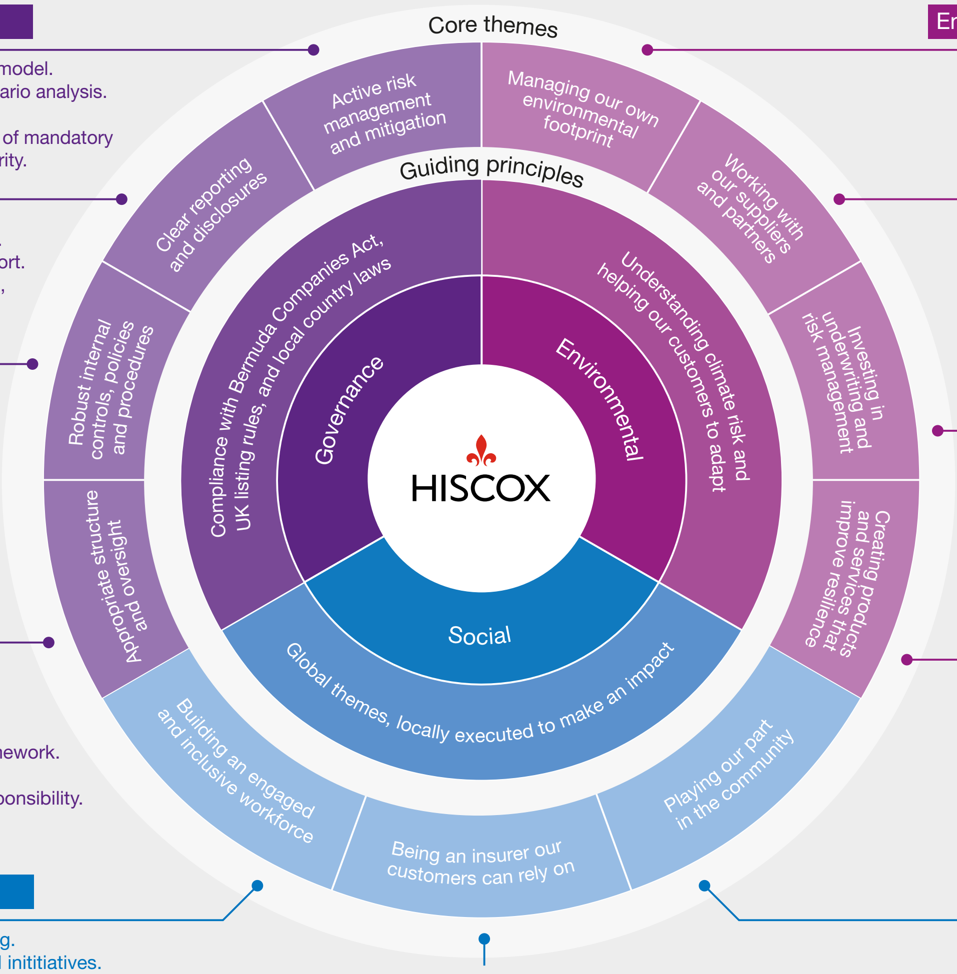
Governance examples

- Three lines of defence model.
- Stress testing and scenario analysis.
- Emerging risks forums.
- Embedded programme of mandatory training e.g. cyber security.

- Climate report.
- Gender pay gap report.
- Financial condition report.
- ESG reporting i.e. DJSI, CDP, FTSE4Good, MSCI, Sustainalytics.

- Shareholder-aligned remuneration approach.
- Suite of relevant policies and procedures e.g. whistleblowing, financial crime.
- Risk and control self-assessment framework.

- Established Board committees, steering committees and working groups.
- Risk management framework.
- ORSA.
- SMFs with climate responsibility.
- Board diversity and Board independence.



Environmental examples

- Carbon reporting and offsetting.
- Emissions reduction targets.
- Waste management.
- Hiscox Green Team.

- Responsible investment policy.
- Claims supply chain e.g. AnyJunk.
- Caterers and facilities management.
- Ethical guide for suppliers.
- ESG exclusions policy.

- Natural catastophe research and modelling, e.g. wildfire.
- Risk curve stress testing and analysis.
- Sustainable steering committee.
- Exposure management forums.

- FloodPlus, FloodXtra.
- Underwriting sustainable ventures, e.g. wind farms.
- Piloting new technologies, e.g. Leakbot.

Social examples

- Employee networks, e.g. WeMind, and other D&I inititiatives.
- Employee engagement forum.
- Annual employee engagement survey.
- Culture dashboards.
- Training and development.

- Claims philosophy, underpinned by our values.
- (Re)insurance as a public good.
- Support measures e.g. vulnerable customers champions, exposure management tools, financial concessions.
- Rigorous privacy and data security.

- Three pillars of charitable giving.
- Impact report.
- The Hiscox Foundation.
- Hiscox Gives.
- Corporate sponsorship.

Our approach to climate issues

As a global insurer and reinsurer, almost every part of our business is affected by climate-related risks.

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

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

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

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

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

Liability risk
Those who have suffered loss from climate change might then seek to recover those losses from others who they believe may have been responsible. Where such claims are successful, those parties against whom the claims are made may seek to pass on some, or all, of the cost to insurance firms through policies such as professional indemnity or directors and officers' insurance. While in the long term as a property casualty insurer, Hiscox is certainly exposed to a myriad of climate risks, our view is that our exposures can be managed through time as a result of how we conduct our business.

For example, the vast majority of our underwriting contracts are annual in nature and thus can be revised frequently and our investment portfolio is very liquid and can be adjusted constantly. This flexibility is our key tool for managing the multi-decade challenge of climate risks holistically.

A fuller discussion of the relevant categories of climate-related risks specific to Hiscox and how we manage these can be found in our latest CDP climate questionnaire.

Our approach is guided by the ESG framework. ESG issues touch many different parts of our business, and so our ESG framework helps us stay focused and make an impact by:

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

How we do things is as important as what we do when it comes to climate-related risks and opportunities, and our 3,000+ employees all have a crucial part to play in that. Our efforts are led by our ESG Executive Sponsor for the Group and supported by established structures and processes that ensure appropriate oversight of ESG issues, up to and including Board level.

We also work closely with other organisations to help shape and inform national and international climate policy, to promote greater understanding of climate related risks and opportunities, and to encourage economies and communities to become more resilient to climate change.

ESG disclosure scores and commitments

Being a responsible business matters, but we recognise that we cannot achieve lasting change on our own.

Latest ESG disclosure scores

How we perform on ESG issues is measured both internally (through the KPIs we set) and externally via ESG standards which rate and benchmark us against our peers and other industries. We participated in a number of independent, global ESG standards in 2020 and will do so again in 2021.

CDP DRIVING SUSTAINABLE ECONOMIES
2020: C grade 2019: C grade

ClimateWise Insuring a sustainable future
2020: 66% 2019: 46%*

Dow Jones Sustainability Indexes
2020: 35/100 2019: 31/100

FTSE4Good
2020: 4.1/5 2019: 4.2/5

MSCI
2020: A 2019: A

SUSTAINALYTICS
2020: 25.6 2019: 28.0

*Change of methodology in 2019.

Commitments and memberships

We contribute to a range of industry-specific, national and international climate-related initiatives through the public commitments we make and the memberships we maintain.

Hiscox values

We have had a strong set of values for decades and we work hard to ensure we live and breathe them in every part of our business.

As our business grows and evolves, we undertake an exercise to review and refresh our values every five years or so, which we did in 2019 and which is when our new values of ownership and connected were introduced. These values underpin everything we do, including our work around climate risk and preparedness.

Principle 1
Be accountable

Understanding the risks and opportunities to our business that result from climate change is critical to our success. The structures and processes we have in place ensure they are managed appropriately, up to and including at Board level, and we publicly report each year on the progress we've made.

"Expectations of corporates go beyond the bottom line and as a Board we spend a lot of time considering our responsible business agenda. The structures embedded ensure that as a Board we receive the oversight we need on climate issues, and that informs our discussions on underwriting exposures and opportunities as well as short-, medium- and long-term business strategy. The issues arising from climate change are not easily solved, but we are a values-based business so for us this is about doing the right thing."

Robert Childs
Chairman

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

Our continued success depends on how well we understand and manage the biggest risks to our business – and those linked to climate change are among the most significant. We have embedded an effective risk management and governance structure, with robust and rigorous processes for identifying, measuring, monitoring, managing and reporting risks across the Group, including climate-related risks.

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

While there are certain nuances to climate risk, we consider it to be a cross-cutting risk with potential to impact each existing risk type, rather than a standalone risk. By design, our Group risk management framework provides a controlled and consistent system for the identification, measurement, mitigation, monitoring and reporting of risks (both current and emerging) and so is structured in a way that allows us to continually and consistently manage the various impacts of climate risk on the risk profile.

Strategic direction defined by the Hiscox ESG framework
Also since 2019, we have been embedding the Hiscox ESG framework to help keep us focused and ensure our decisions and actions have the most impact (see page 4). Environmental and climate-related matters form a key part of this strategy, both in terms of how we underwrite and invest, and in how we operate our business – from setting annual budgets and business plans, to risk assessment and management.

This framework is published on our website, in our twice-yearly analyst and investor presentations, and is regularly shared with our employees, brokers, partners and clients. More information on how we engage with our key stakeholders on climate-related issues can be found on pages 58-62.

ESG Executive Sponsor to drive progress
In 2020 we appointed James Millard as our new ESG Executive Sponsor, who also serves as the Group's Chief Investment Officer. He reports to Aki Hussain, Group Chief Financial Officer and Board and Executive Committee member. James provides regular updates on ESG issues to the Sustainability Steering Committee, the Executive Committee and the Board as part of the established cycle of reporting which takes place at least twice a year.

Climate ownership in our UK entities
Since the end of 2019, our Hiscox UK subsidiaries adopted a strategic climate action plan, to manage and monitor climate change risks over a range of business planning time frames. The action plan is owned by the entity Chief Executive Officer who has overall regulatory responsibility for managing the financial risks from climate change under the UK's Senior Managers Certificate Regime (SMCR). The committed actions are expected to be fully embedded by the end of 2021. The climate action plan address the key pillars of activity – governance, risk management, scenario analysis and disclosures; in line with what is set out in the PRA's Supervisory Statement 3/19 (SS3/19). At a high level, outcomes expected are as follows:

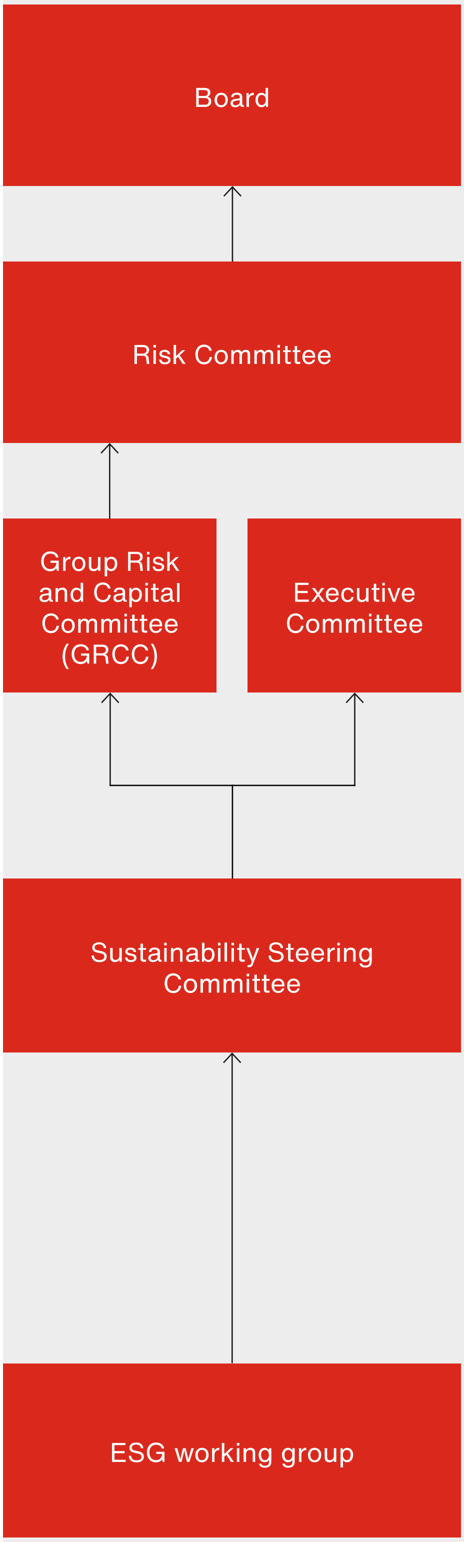
- Governance. The entity Board understands and is able to assess the financial risks from climate change to oversee these risks from within the firm's overall business strategy and risk appetite. The Board has the right knowledge and tools to discharge this duty.
- Risk management. The entity Board is able to identify, manage and monitor transitional and physical risks associated with climate change. Risks and opportunities are considered in relation to strategy, balance sheet, and operations.
- Scenario analysis. Periodic stress testing is enhanced to include transitional and physical scenarios and considers both the short and long-term impacts to business planning, strategy and operations.
- Disclosures. That a consistent and appropriate approach to the disclosure of the financial risks from climate change is embedded.

UK entity Board discussions regarding climate change take place bi-annually and progression towards the strategic climate action plan commitments are monitored quarterly, with input from across the Group, including from the functional areas of investments, underwriting, exposure management, finance and risk. This allows us to consider the risks that climate change presents to all aspects of Hiscox's risk profile and balance sheet.

Additionally, the entities utilise centralised tools and activities such as capital modelling, catastrophe modelling (Hiscox view of risk), risk modelling and investment management to monitor and manage climate-related risks. These in turn drive key risk management tools used by the Board such as our stress and scenario testing and emerging risk process.

ESG governance structure

How we manage, monitor and escalate ESG integration.



Board

- Oversight of long-term ESG vision, strategy, priorities and performance against agreed metrics and targets.
- Ensures governance and accountability in place with sufficient support.
- ESG discussion at least twice-yearly on strategy, trends, opportunities, vulnerabilities, and emerging issues.

Risk Committee

- Provides oversight of Hiscox's ESG integration.
- Advises Board on ESG strategy, key priorities, risk profile, risk exposures and opportunities.
- Recommends proposals for consideration by the Board as required.

Group Risk and Capital Committee

- Quarterly reporting on ESG matters from Sustainability Steering Committee, supported by ESG working group. Periodic attendance by ESG Executive Sponsor.
- Sets high level Group strategy, priorities and ensures delivery across the Group.

Executive Committee

- Twice-yearly ESG sessions. Sets business unit or function ESG-related strategy, priorities and drives delivery through business units and functions.

Sustainability Steering Committee

- Sub-committee of the GRCC, responsible for execution of the agreed ESG strategy, driving actions and delivery at a Group level.
- Embeds sustainability risks and opportunities, with an initial focus on climate.
- Oversees effective use of resources and tracks Group and entity-level sustainability performance.
- Ensures senior management level involvement and accountability for sustainability issues.
- Group Chief Executive Officer (Chair), Chief Transformation Officer, UK Chief Executive Officer, Chief Investment Officer (and ESG Executive Sponsor), representative business unit Chief Underwriting Officers, Chief Risk Officer, Chief HR Officer and Head of Investor Relations meet quarterly, with periodic attendees from other functions, e.g. ESG working group, HR, procurement, property services.

ESG working group

- Operational body, providing central point of coordination and expertise for ESG-related activity across the Group.
- Manages ESG-related Group reporting, disclosures and communications.
- Meets monthly and provides input and recommendations to management on ESG matters.
- Focuses on ESG-related research, including external monitoring and expectations, to inform future activity.

James also helps to inform and educate our different business units about our climate change approach and the climate-related risks and opportunities we face through discussions and presentations, which in 2021 included a Group-wide presentation on ESG and climate-related issues to raise awareness and create an understanding of these issues.

ESG as part of the Group operating plan
Since 2020, ESG has formed part of the Board-approved Group operating plan. This plan outlines the performance of key business areas during the prior year, and their strategic priorities for the year ahead. Areas covered include business units, risk, IT, finance and marketing, and the plan is used by senior management to guide annual business strategy.

ESG oversight at Executive Committee and Board level
Areas of Board and Executive Committee discussion in 2020-21:
- approval of the responsible investment policy;
- approval of the ESG exclusions policy;
- approval of the climate change position paper;
- agreement to our new strategy for charitable giving across the Group, which now includes a pillar dedicated to protecting and preserving the environment;
- assessing our underwriting exposures to key sectors, and updates on the Bank of England's Climate Biennial Exploratory Scenario (CBES) stress-testing exercise (see page 12);
- updates on ESG reporting, including our participation in global standards such as CDP, ClimateWise, Dow Jones Sustainability Index, FTSE4Good, ISS and Sustainalytics;
- debate of our approach to new carbon emission reduction targets, as we prepare to set new targets in 2021 that are aligned to the Science Based Targets initiative (SBTi);
- the establishment and role of the new Sustainability Steering Committee (see page 10);
- defining a set of metrics and targets we will use to track our progress on climate change activity, and ESG more broadly.

Board and committee structure
The Board meets at least four times each year, and to help it better manage the business it appoints and authorises a number of committees to oversee different aspects of the Group's operations. Each committee is run by a Board member, who reports directly to the Board. During Covid-19-related travel restrictions, these meetings looked a little different, but the Board met more frequently in 2020, during which a number of informational sessions on climate change were held, and included discussion of our current exposure to, and management of, climate change risk.

Monitoring and managing risk
Our Risk Committee has the main responsibility for assessing the climate-related risks and opportunities we face. It advises the Board on how best to manage the Group's risks, by reviewing the effectiveness of risk management activities and monitoring the Group's actual risk exposure. The Risk Committee relies on frequent updates from within the business and from independent risk experts for its understanding of the risks facing both our business and the wider industry.

This includes updates from various forums that scan and collate information, both external and internal, on potential emerging themes, risks and opportunities. Each has a different purpose and remit, but link together with existing processes including:
- **underwriting** – exposure radar in casualty exposure management group (EMG);
- **enterprise view** – risk team emerging risk;
- **compliance** – regulatory horizon scanning;
- **indemnity** – claims and actuarial reserving;
- **market** – strategic and business planning.

The internal emerging risk management process was enhanced in 2020 by the introduction of detailed and local-specific emerging risk discussions with management teams. This discussion is typically performed at least annually, with the intention of the most material and imminent emerging risks being integrated into the risk dashboard for the Risk Committee's review. In addition, the output of the emerging risk process will feed into the annual review of the operating plan, the long-term strategy planning process, as well as the forward-looking assessment scenarios and the stress tests and reverse stress test scenarios.

Stress testing and scenario analysis

We maintain a regular cycle of stress testing and scenario analysis to ensure we manage risk well and evolve at the same pace as the risks we cover. We have embedded an internal programme of stress testing, which is performed annually to assess the resilience of the business plan in extreme, adverse scenarios.

During 2020, we carried out a number of stress tests and reverse stress tests on a range of potential climate-related catastrophes, such as windstorms in Japan, Europe and the USA. We model the impact of weather-related events of varying sizes so we can understand the Group's potential loss exposure.

The periodic stress-testing process is being enhanced in 2021 for the UK entities specifically under the aforementioned strategic climate action plan. Future developments include the addition of transitional risk scenarios and longer time horizons. These enhancements will assess the impact on strategy, operations and the solvency profile.

Additionally, in 2021, Hiscox Syndicate 33 is one of ten Managing Agents to have been asked to participate in the Lloyd's submission to the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise to provide a market view of climate risk preparedness. The exercise will test the resilience of our business model to the physical and transition risks from climate change.

We are developing our own methodology and detail for the exploratory scenarios, which is bespoke to the Hiscox portfolio. These scenarios will look at the impact to our assets and liabilities across a 30-year horizon (aligning the exercise with commitments to reach net-zero annual emissions of greenhouse gases by 2050) and the adjustments to our business models as a result.

A fixed balance sheet will be stressed through three scenarios (early policy action, late policy action and no additional policy action) which look across physical, transition and liability risk exposures and include various contextual variables such as climate litigation, macro-economic changes and our own prospective management actions. The stress test outputs and lessons learned will be leveraged to enhance our approach to modelling climate-related scenarios; ensuring a process to interpret stress-testing results in a way that translates to meaningful business decision-making and outcomes.

Climate change is considered to be an emerging risk that could have a material impact on the Group, by altering the frequency and severity of weather events such as storms and flooding. It could also present an opportunity, driving greater demand for cover against changing extreme weather events and creating a need for innovative new products to meet emerging needs resulting from climate change.

In 2020, emerging risk discussions have additionally covered the increasing expectations on demonstrating good practice regarding environmental, social and governance issues. Pressures are emerging both top-down (governments, regulators, economic forums) and bottom-up (employees, consumers, action groups etc.). We are already aware of the risk, and our response is being coordinated across the Group, particularly by the existing ESG working group and by embedding a new Sustainability Steering Committee.

We invest in technology, to ensure the right modelling and data is available to support our pricing and exposure. As losses increase, the benefits of having the right level of insurance should become clearer, which could also encourage customers to focus on the quality of cover and service rather than cost.

We consider the various impacts climate change could have on our risk profile, including transition risks impacting the loss experience of those risks currently within our appetite. The financial impact on investments is another potential impact. A range of activities are already underway to help the Group respond to the changes posed by climate change (see Principle 3).

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

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

Environmental policy	Our environmental policy outlines our approach to managing the environmental impact of our business activities and those that arise from our ownership and occupation of office premises. We actively manage and aim to minimise our environmental impacts, due to the resources we consume and the amount of waste our activities produce, as well as complying with relevant environmental legislation and other requirements such as the ClimateWise Principles.
ESG exclusions policy	We aim to steadily eliminate by 2030 our insurance, reinsurance and investment in thermal coal-fired power plants and thermal coal mines, Arctic energy exploration projects (beginning with the ANWR region), oil sands and controversial weapons. Although the policy formally comes into effect on 1 January 2022, in line with Lloyd's ESG ambitions published in December 2020, we have already begun to put it into effect. We will review the policy each year and refine it to reflect our progress, as well as external expectations on these practices, as necessary. For more information go to the case study on page 25.
Ethical guide for suppliers	Our ethical guide for suppliers outlines how our corporate values and commitments to doing business in a socially responsible way extends to our relationships with suppliers. It covers our supplier selection process, fairness and recognition, supplier diversity, engagement, our expectations of how our suppliers behave as well as their obligations in adhering to laws and regulations regarding employment, health and safety, the environment and anti-bribery and corruption. It is shared with suppliers during the tender process and suppliers are reminded of it periodically.
Health and safety policy	Our health and safety policy helps ensure we provide a work environment and activities that ensure the health, safety and welfare of all our employees and those who are affected by our operations across all Hiscox Group activities and locations.
Modern slavery statement	Hiscox complies with the provisions of the Modern Slavery Act. Our modern slavery statement outlines our zero-tolerance approach to slavery or human trafficking in our supply chains or in any part of our business. We also demonstrate practical support of this through our work to support Comision Unidos vs. Trata (The Commission United Against Trafficking), a Mexican charity supporting victims of human trafficking in Mexico and the Americas. The Commission was founded in Mexico in 2012 by Rosi Orozco, a former Mexican congresswoman and outspoken campaigner against human trafficking. It was established with a vision to end human trafficking, primarily focusing on the sexual exploitation of young girls. The Commission works in collaboration with more than 100 NGOs around the world, including from Mexico, the USA, Canada, Colombia, Spain, Argentina and the UK, to advocate for legislative change to hold accountable traffickers, intermediaries and consumers involved in sexual exploitation. It also focuses on the decriminalisation, protection and restoration of victims through the provision of support services, accommodation and education programmes, and runs the only residential restoration home for boys in the Americas. Hiscox has worked with The Commission since 2017.
Respect for human rights	We do not maintain a stand-alone human rights policy but are guided by the principles of the UN's Universal Declaration of Human Rights and the International Labour Organisation's core labour standards.
Responsible investment policy	In 2020, we established a responsible investment policy for the Group, which outlines our expectations of our in-house investment team and our external asset managers. This includes our investment processes and stewardship activities as we look to invest in companies that have sound ESG practices, how we evaluate our managers' ESG integration, and our approach to impact investing.

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

James Millard is the Group's Executive Sponsor for ESG and leads our ESG working group, which drives progress on ESG issues, including climate-related issues. The working group meets at least monthly, comprises representatives from underwriting, investments, risk management and communications and reports up to the Executive Committee and the Board with updates and insights.

Defining the role of management in climate issues with new Sustainability Steering Committee
In 2021, we established a Sustainability Steering Committee that is responsible for executing our ESG strategy across our operations, driving actions and delivery at a Group level, and for identifying both the risks and opportunities arising from sustainability issues, with an initial focus on climate change.

This ensures our senior managers are involved in and accountable for sustainability issues, and tracks our sustainability performance, both at a business unit and Group level. The Committee is chaired by our Group Chief Executive Officer, and its members include our Chief Transformation Officer, UK Chief Executive Officer, Chief Investment Officer, Chief Underwriting Officers from some of our business units, Chief HR Officer, Chief Risk Officer and our Head of Investor Relations. Its meetings are held quarterly and are also attended periodically by representatives from across the Group, such as our ESG working group, property services and procurement.

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

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

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

Risk management framework

Hiscox Own Risk and Solvency Assessment (ORSA) framework

Once we have assessed our risks through the risk management framework and through our Own Risk and Solvency Assessment (ORSA) framework, we manage them through a combination of the following:

- a diversified portfolio;
- a clearly defined risk appetite;
- underwriting discipline based on sound decisions aligned with the Group's overall strategic objectives and risk appetite;
- tailored modelling resources;
- stress and scenario testing;
- mitigation of the effect of catastrophes and unexpected concentrations in risk through reinsurance.

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

Beyond the Board, committees and the risk team
Business areas potentially impacted by (or with a vested interest in) climate issues – such as risk modelling, risk management, communications, marketing, Group investments and property services – work together on some climate-related activity, such as proxy report responses (see page 6 and Principle 6.1), but are responsible for integrating climate-related matters into their work and escalating issues to an appropriate level of management. An example of how this risk integration creates results for both Hiscox and our customers can be seen in our work to boost flood insurance solutions and customer access to them in the UK and USA. More information on this is included on pages 33, 54 and 57.

Three lines of defence model

First line of defence
Owns risk and controls

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

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

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

Third line of defence
Provides independent assurance of risk control

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

Our ambitions

Performance against our 2020-21 ambitions

Status	Ambition	Update
Ongoing	Embed new climate change steering group across the Group, to ensure their activity around exploring and assessing climate-related risks feeds into the ESG working group and is shared with the Executive Committee and the Board.	Further discussion about the role of this group has led to the creation of the Sustainability Steering Committee, which has a wider sustainability remit including climate, replacing the previously proposed climate change steering group. For more information, see page 10.
Ongoing	Finalise ESG dashboard, which will be used to provide consistent metrics for reviewing our progress on ESG issues including climate-related issues.	We continue to review and refine our dashboard approach to ensure it is of practical use at both a Group and an entity level. We are currently working with our big-ticket businesses to develop bespoke dashboards that work for those business areas and enable them to assess their progress on ESG-related issues, including our underwriting and investment withdrawal from thermal coal and other industries.
Achieved	Publish climate change positioning paper on the Hiscox Group website, to publicly outline how we think about and are responding to climate change.	We published our climate change positioning paper in August 2020 and updated it again in May 2021. It is available to download here.

Our 2021-22 ambitions

- Complete our contribution to the Lloyd's submission for the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise and implement any lessons learnt within the business.
- Embed new Sustainability Steering Committee and ensure appropriate senior management involvement and oversight of ESG issues, with a particular focus on climate change.
- Produce a public-facing ESG dashboard that can be used to demonstrate annual progress on ESG and climate-related issues, and published as part of our 2021 Annual Report.
- Set new Board-approved GHG reduction targets for the Group that align with our commitments as a signatory to the 2015 Paris Agreement.

Case study
Increased Board engagement in ESG through focus groups.

While we have an established rhythm and embedded process for Board engagement in ESG and climate-related matters, there is also appetite for further debate and discussion on these matters beyond the scheduled Board meetings. That's why, during 2020, we held a number of more informal focus groups with our Non Executive Directors to explore a range of ESG issues with them outside of the main Board meetings.

Each session was facilitated by our ESG Executive Sponsor, alongside ESG working group members, creating structured discussion. These sessions covered issues including our underwriting and investment exposure to fossil fuels and other contentious industries, how we measure and assess climate-related risks and opportunities, and future training needs. With the regulatory landscape and external expectations changing so rapidly, these sessions also included an element of horizon-scanning and some debate around an anticipated increase in appetite over time for independent verification – particularly when it comes to ESG performance and reporting.

These sessions proved to be extremely valuable as they informed our 2021 activity plans on ESG and climate issues, so similar focus groups will now become a regular feature of our annual ESG planning process – with our next sessions due to take place during the second half of 2021 as we prepare our 2022 plans.

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

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

“Climate variability has long been a feature of our risk management structures and processes, but over time is becoming more dominant in our discussions, our thinking and most importantly our strategy and decision-making. Physical, transition and liability risks arising from climate change are monitored, managed and owned across the business and considered over a range of business planning time frames. We also adjust our course as expectations and regulations evolve, and in 2021 this includes preparing for the introduction of mandatory TCFD disclosure and adopting the lessons we learn from our participation in the Bank of England’s CBES exercise.”

Hanna Kam
Chief Risk Officer

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

As a global insurer, we have a responsibility to – and are of interest to – a range of stakeholders. This includes not only our investors and our investment managers, which are discussed in detail below, but also our employees, customers, suppliers and business partners, analysts, regulators and the media. Our work with employees is discussed in more detail in Principle 4.4 and on pages 61 and 62, with customers in sections 6.1 and 6.2, with (and through) the media in section 6.1, and with regulators in section 5.1.

In addition, the chart on page 31 shows how we evaluate the potential impact of natural catastrophes, which has climate implications, and sections 3.1 and 6.2 discuss our growing portfolio of flood products around the Group in response to the challenges arising from the changing nature of natural catastrophes including the climate-related impact on natural catastrophes. The carbon footprint of our business is also of relevance here, and more information on that can be found on pages 39 and 40.

Our approach in investments
Hiscox is a signatory to the Paris Pledge for Action, a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) and a founding member of ClimateWise. We have also become a signatory to the UN supported PRI (Principles for Responsible Investment). These commitments help to inform our long-term investment strategy, as well as how we monitor, measure and report on our progress.

We maintain a relatively small in-house investment team, which oversaw financial assets and cash totalling $7.6 billion as at 31 December 2020, investing in bonds, cash and equities on behalf of the Hiscox Group. All of the team have ESG integration into our investment practices as personal objectives, which are reviewed regularly as part of our staff performance appraisal processes, alongside the ESG training programmes we have in place for our senior team members. Located in London, the team is led by the Chief Investment Officer (CIO), who has overall responsibility for investment strategy and manager selection and who also serves as the Group's ESG Executive Sponsor. Our CIO is charged with optimising Hiscox's investment portfolio in line with its policies and targets. Our approach to investment is referenced on page 31 of our 2020 Report and Accounts. The priority for the investment portfolio is always to provide liquidity to pay claims and capital to support the business, and a conservative stance ensures that we remain in a good position to fulfil both roles. The secondary objective is to maximise our investment result in the prevailing market conditions subject to a prudent risk appetite.

Hiscox Group responsible investment policy
In 2020, we adopted our first responsible investment policy. After discussions with the relevant investment committees, this was approved by the Board in mid-2020. Subsequently, after researching a wide range of climate and other topics, the Board approved the Group ESG exclusions policy in early 2021 and the two policies now work hand-in-hand to ensure our approach to climate is reflected in our business strategy and most importantly in how we operate day-to-day.

Our responsible investment policy, in conjunction with our Group ESG exclusions policy, sets out the principles applied to our portfolios.

The policy ensures ESG considerations are taken into account in our external manager selection and monitoring processes. The policies also guide our selected external asset managers, setting out our expectations of how ESG issues and opportunities should be incorporated into their investment and ownership decisions undertaken on our behalf, while ensuring reporting and disclosure of ESG issues and engagement activities.

The majority of our portfolios are directly invested, and our investment guidelines with our selected investment managers include requirements to incorporate material ESG factors into their investment and stewardship activities and to abide by our ESG exclusions policy. The exclusions policy states our intent to not directly invest into securities of companies that contribute disproportionately to climate change or are involved in undesirable practices, these include those that generate more than 30% of revenues from thermal coal extraction or power generation, Arctic energy exploration activities, oil sands or controversial weapons.

Where Hiscox invests in pooled funds and has no direct control over portfolios, desired exclusions are shared with the investment manager and they are requested to apply them wherever possible.

Hiscox outsources the management of the Group's investment assets to a range of specialist third-party fund management experts and investment managers, who deal with securities and stock selection on a day-to-day basis and manage many of the investment risks on our behalf.

The CIO and the investment team retain the primary fiduciary duty to protect and enhance the value of our assets, including the integration of ESG issues into their investment processes. This includes understanding and protecting against the investment risks resulting from climate change.

Along with much of the insurance industry, our approach to including climate change in our investment decisions continues to evolve. We are guided by our responsible investment policy, which we established in 2020 and which sets out our broader approach to ESG issues.

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

Combining the expertise of the in-house investment team with the input of our fund managers ensures we make decisions on investments and climate-related risks in a pragmatic, practical and useful way. Our investment partner selection and monitoring processes includes assessment of the firm, their investment capabilities and track record, alongside their ability to manage and report on ESG risks and opportunities on our behalf. As good business practice, Hiscox expects its asset managers to invest in companies that have sound ESG practices.

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

We believe that ESG factors can have an impact on risk and returns across asset classes, sectors, geographic regions and companies, and should therefore be integrated into the investment process. Hiscox's asset managers are expected to have apprised themselves of the Hiscox ESG framework and the Hiscox values (see pages 4 and 7), with a view to reflecting them in our investment activities as far as possible.

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

Board oversight of our investments

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

Any significant risks are fed into the risk management process via the central risk team. Risks are added to the risk and control register and assessed alongside other business risks. See section 1.1 and 1.2 for more details of our risk management process.

Our portfolio profile

The majority of Hiscox's investments are in short-dated bonds (71.7% at the end of 2020) with a smaller proportion in cash (20.7%), and the smallest in equity type funds (risk assets 7.6%).

While bond holders do not generally have a vote, primary bond issues provide essential short- to medium-term financing to businesses, and bond investors such as us can have a meaningful, active engagement approach with issuers. Where possible, we expect our investment managers to engage with portfolio companies on our behalf. Short- to medium-term bond investments typically have low, direct correlations with the longer-term issues of climate change risk. However we believe that ESG issues and issuers' approaches to managing climate risks and opportunities should still be key considerations in the evaluation of each issuer, including the sustainability of issuers' business models and cash flow generation abilities.

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

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

2020 investment portfolio sustainability review
We review the ESG integration activities of our investment managers and portfolios at least annually. We expect our managers to engage with companies on Hiscox's behalf, with a view to improving ESG standards by changing corporate behaviour to minimise both climate and investment risks.

We expect all of our investment managers to sign up to organisations and principles which demonstrate their commitment to ESG integration, and so we are pleased that this is the case for almost all of them. Over 99% of our assets are managed by managers who are signed up to the PRI and in 2021 we also became a PRI signatory.

In 2020 we undertook a full retender for all our investment grade bond portfolios, which account for over 70% of our investable assets. The ESG integration practices of the external managers, and how they report on ESG issues, formed a significant element of our manager evaluation and selection process and the revised manager line-up has now been implemented.

At the end of 2020, we had over 3% of our bond portfolio invested in green, social, sustainability or ESG KPI linked bonds, and 0.8% of our total investment portfolio AUM was invested in strategies with specific impact objectives. This represents a $56 million exposure to impact investing and is something we will continue to explore where the risk and return balance is appropriate.

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

Our investment portfolio monitoring now includes key metrics such as carbon intensity and exposure to sustainable investments such as green bonds and impact investments, while also ensuring that our exposure to ESG exclusionary areas is minimised.

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

The pension trustees believe that good stewardship and ESG issues may have a material impact on investment risks and returns, and that good stewardship can create and preserve value for companies and markets as a whole.

The trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The trustees take into account the expected time horizon of the pension scheme when considering how to integrate these issues into the investment decision-making process.

The trustees have given its appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with each manager's own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The trustees consider how ESG, climate change and stewardship are integrated within investment processes regarding appointing new investment managers and monitoring existing investment managers' performance. The trustees meet each manager annually and those that are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

From 2021, the scheme's investment advisor, Isio, will keep managers' ESG policies under rolling review. If a manager has not acted in accordance with its own policies and frameworks, then these would be grounds for Isio to conduct additional monitoring and engagement.

During 2021, the trustees will set ESG beliefs and intend to review the scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Fidelity, which manages our Group personal pension plan, has committed to reduce carbon emissions within FutureWise, the default investment strategy for Hiscox members, by half by 2030, and to net-zero by 2050 or before.

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

Our approach in underwriting
We have extensive and embedded processes in place that ensure we regularly evaluate the implications of climate change on business performance and specifically from an underwriting perspective. This includes through forums such as our Emerging Risks Forum, our Grey Swan Group, and our Natural Catastrophe Exposure Management Group, as well as through policies such as our ESG exclusions policy.

Sustainability Steering Committee
Our newly formed Sustainability Steering Committee is also designed to ensure frequent senior management oversight of ESG and climate-related issues and their actual or potential impact on business performance both now and longer term. More information on this can be found on page 10.

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

As a (re)insurer with exposure to losses arising from natural catastrophes – including climate-related natural catastrophes – it is imperative that we consider these implications for our business. A key consideration for our business is to identify potentially catastrophic and systemic insurance losses from damage caused by a range of catastrophes, including natural events such as hurricanes and earthquakes, which could be significant enough to be considered principal risks to the business. It is why we publish our expectations for specific modelled losses twice a year during our half-year and full-year financial results presentations to the market (see page 31).

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

We also measure and disclose the impact of our business operations, either ourselves or through independent global ESG standards. More information on this can be found on pages 6, 40 and in section 6.1.

Additional information on the metrics we use to assess climate-related risks and opportunities (in line with our strategy and risk management processes), and the targets we use to manage climate-related risks and opportunities, can be found in our latest CDP climate questionnaire.

What we consider short-, medium- and long-term climate risks
We consider the potential impact from climate-related issues over short-, medium- and long-term time horizons:
- Short- to medium-term climate risks include physical risks which can be event-driven or result from shifts in climate patterns, such as natural catastrophe risk and operational risk. Given that the majority of the policies we write are annual (re)insurance policies, we are able to regularly consider these types of risks and their impact on our exposures, and adjust pricing and appetite accordingly.
- Medium- to long-term climate risks include regulatory risk, credit risk, legal risk, reputational risk, and technology risk. We have several emerging risks forums across the organisation which are designed to identify emerging, longer-term risks and opportunities, including climate-related risks and opportunities. Alongside our in-house modelling and research expertise, these groups ensure our work takes into account climate-related issues over a range of business planning time frames.

ESG exclusions policy

In early 2021 we published a new Group-wide ESG exclusions policy. Under this policy, from 1 January 2022, we intend to no longer insure any new risks relating to:

- thermal coal-fired power plants and thermal coal mines;
- Arctic energy exploration projects, initially focusing on the Arctic National Wildlife Refuge;
- oil sands;
- controversial weapons.

We also intend to no longer reinsure portfolios where more than 30% of the premium base derives from these sectors, and nor will we invest in companies that derive more than 30% of their income from these sectors.

Although this policy officially comes into force next year, we are already embedding it in our business and declining risks on this basis. See page 25 for more information.

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

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

In addition, every two years one of our UK regulators, the Prudential Regulation Authority (PRA), conducts a general insurance market stress test which we participate in alongside many of our peers. We participated in 2019, when the stress test included, for the first time, a climate change element, and are participating in the PRA's Climate Biennial Exploratory Scenario (CBES) exercise in 2021. Similar to the 2019 exercise, the lessons learnt from the 2021 exercise will be fed back into the business to further boost our climate risk preparedness.

Our ambitions

Performance against our 2020-21 ambitions

Status	Ambition	Update
Achieved	Investment team to complete specific ESG training.	ESG is included in the objectives for each of investment team member, and ESG training has been rolled out for senior team members.
Achieved	Undertake our annual review of the ESG capabilities of our investment managers, reporting back on the assessment to the relevant Boards and committees.	ESG assessments have been undertaken for all existing and new managers during the last 12 months, and are included in our reporting to relevant committees.
Ongoing	Continue to develop portfolio metrics with a view to better evaluating, managing and reporting on ESG risks and opportunities.	We have embedded systems and ESG data to produce independent investment portfolio-wide ESG metrics, including GHG exposures, alongside those produced by our investment managers. We continue to review our ESG monitoring tools and providers to further evolve our oversight of ESG risks and opportunities.
Achieved	Complete an annual review of our responsible investment policy.	As our approach has continued to evolve, the introduction of an ESG exclusions policy has contributed to our responsible investment policy review and refinement process this year. These two policies now complement each other in both concept and implementation.

Our 2021-22 ambitions

- Explore further ESG training for senior investment team members.
- Undertake our next annual review of the ESG capabilities of our investment managers, reporting back on the assessment to the relevant committees.
- Continue to develop portfolio metrics with a view to better evaluating, managing and reporting on ESG risks and opportunities.
- Set science-based GHG metrics and targets in line with our 2015 Paris Agreement commitments, developing a strategy to manage investment portfolio alignment.
- Complete an annual review of our responsible investment policy.
- Fulfil our commitments as a PRI signatory, including our first season of PRI reporting.

Case study

New exclusions policy for underwriting and investments underlines our commitment to a low-carbon economy.

Insurers and reinsurers have a part to play in ensuring an orderly transition to a low-carbon economy, which includes tackling climate change resulting from fossil-fuel-related greenhouse gas emissions. As a company that takes its role in the world seriously, we want to play our part, which is why we have established a Group-wide ESG exclusions policy.

Under this policy, from 1 January 2022, we intend to not insure any new risks relating to:
- thermal coal-fired power plants and thermal coal mines;
- Arctic energy exploration projects, initially focusing on the Arctic National Wildlife Refuge;
- oil sands;
- controversial weapons, which, in line with the MSCI definition, we consider to include cluster bombs, landmines, depleted uranium weapons, chemical and biological weapons, blinding laser weapons, non-detectable fragments and incendiary weapons (white phosphorous).

We will take a similar approach with reinsurance portfolios where more than 30% of the premium base derives from these sectors, and with investments in companies that derive more than 30% of their income from these sectors.

On the investments side, our exposure to these industries is already minimal, so in operationalising this policy we intend not to make direct investments in companies that generate more than 10% of their revenues from Arctic energy exploration, oil sands or controversial weapons. Where we invest in pooled funds, we will share the exclusions policy with the portfolio manager along with our expectation that it will be met.

On the underwriting side, where manageable exposure exists in some of our big-ticket lines, we are already integrating this policy into decision-making and have declined risks that are not in line with our longer-term appetite. This Board-approved policy is the basis of our ambition to reduce steadily and eliminate by 2030 our insurance, reinsurance and investment exposure to these sectors, in line with the 2015 Paris Agreement and UN Sustainable Development Goals. Our policy also takes into account Lloyd's ESG ambitions, published in December 2020, which as a Lloyd's participant is important to us.

Our progress will be tracked by business area Chief Underwriting Officers, who will record the number of risks we decline or choose not to renew as a result of this policy, and these results will be shared with the relevant boards and committees every six months.

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

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

“Having a dedicated research team with PhD level expertise in-house means we can immerse ourselves in climate variability issues and continue to review and refine our view of the risk as it evolves, as these days almost every research project we undertake has a climate element to it. Not only is our team involved in educational client events; through our relationships with model vendors we share insights and claims experience which improves the value of the models for everyone. We also support the Lighthill Risk Network and are partnering with academia to develop revised European wind and flood models that incorporate climate modelling, which will benefit the whole market.”

Kelsey Mulder
Natural Catastrophe Research Lead

Hiscox has a strong culture of successfully using climate risk modelling to aid our assessment of current and future risks, and as a key contributor to our business strategy. We conduct our own internal research, and support external research on climate, weather and catastrophe patterns. These findings are shared within the Group and through our long-standing collaborations with other organisations, and incorporated into our business activities – our pricing, capital, reserving and reinsurance models are, to a large extent, underpinned by our catastrophe research and modelling activities, as well as our own customer and claims data.

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

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

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

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

In order to identify and manage business risks, we have developed a risk management framework, which we regularly review and refine in light of the changing risk environment and evolving best practice on risk management. Our risk management framework is designed to oversee a culture of innovative and prudent underwriting. More information on it can be found in sections 1.1 and 1.2.

We also review natural catastrophe risk at least quarterly, through our Natural Catastrophe Exposure Management Group (NCEMG), which is led by the Director of Underwriting Risk and Reinsurance and comprises senior representatives of the catastrophe modelling team, members from each business area, the risk team, and Chief Underwriting Officers from across the Group.

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

The NCEMG's work not only enables us to continuously refine our models (using data to make better decisions); it also supports future product development. For example, we have calibrated and delivered a loss model that will improve our pricing capabilities for FloodPlus. We've also included an additional model to improve our location-level pricing and are working on bringing together the three separate risks of coastal flooding, inland flooding, and hurricane precipitation so we can have a holistic view of flooding. Often, models treat these perils individually, but for insurers it is important to model them together. In a warming world, sea levels will rise and exacerbate these causes of flooding, therefore it is important that we understand the risk now so we can plan for the greater impact of climate change.

We are also researching how to include natural hazard risk outside of flood into our pricing model for BindPlus, our household and commercial property online platform for coverholders. This would enable us to accurately assess the risk as science progresses, while also making us less dependent on model vendors updating their models.

In 2020, we undertook a major project to look into US inland flood risk. It is a key peril for us and catastrophe models are critical in deciding which risks we underwrite and what prices we set, so it's essential we understand the models and validate those against our own loss data and that of the industry as a whole.

Our research and actuarial teams in our reinsurance and London Market businesses worked together on analysing flood loss statistics going back to the 1970s, and storm data going back much further, to understand the potential frequency of different events and how claims trends have changed over that period, to assess how an event that might have occurred decades ago could affect our portfolio today. That involved a large amount of work, including taking into account changes in, for example, building types and designated flood zones. Our conclusion was that the models underestimate the flood risk in some parts of the USA.

We have made adjustments to our pricing to take account of that deficiency, as well as feeding the results of that research into the HVOR and our Group capital processes, to ensure we understand what, if any, correlation that slightly higher risk may have with other business we write, and to adjust our capital and reserves to ensure we are holding enough money to cover events. This year, we plan to continue our research, by looking to validate the models we use for hurricane-related precipitation flood losses.

2020-21 natural catastrophe activity
2020 was a record-breaking year for natural catastrophes. The 2020 hurricane season had 30 named storms, the highest number of Atlantic hurricanes in one season. There was also a record number of $22 billion natural catastrophes in the USA in 2020, surpassing the previous record of 16 in both 2011 and 2017. There were a number of particularly damaging severe convective storms, including a tornado in Nashville, Tennessee and a derecho – a powerful straight-line windstorm – in Iowa.

We are currently researching the climate impact on severe convective storms today as well as in the future. Because natural catastrophe models are largely built on historical data, it is important to understand if climate variability and climate change have had an effect on the environment and whether the models capture that risk.

Our current understanding suggests that the frequency of severe convective storms appears to be decreasing (around four fewer days per decade), but there is a signal that their severity is increasing, for example, there are more tornadoes per outbreak. This trend is expected to continue with climate change, and we will take account of it in our business practices as more scientific evidence emerges.

We continually enhance the HVOR and evolve our modelling approach, so we improve underwriting performance within our natural-catastrophe-exposed business. So, for example, our recent analysis on the catastrophe models on US inland flood risks has resulted in adjustments to our pricing, capital and reserving for these perils.

2020 was also another consecutive year of damaging wildfires in the USA and Australia. We recently updated the HVOR for California wildfire to incorporate climate change and we are now looking to do the same in Australia, to understand whether there is a detectable signal that we can use to understand the risk in future.

Developing a climate change framework
Often, an insurer's take on climate change will be: "if my risk levels change by x amount in 2050, what will my current portfolio look like?" We think this approach is problematic, because there is uncertainty around global temperatures and different perils' sensitivity to climate change.

Equally, it does not account for how strong the climate signal is, or how clearly climate change is impacting the frequency, severity, or location of a peril compared to climate variability factors such as El Niño, while the timescales involved in climate change are often too long to affect decisions today.

Instead, we prioritise our climate change research projects according to the timescales of greatest interest, the strength of the climate signal, the sensitivity of different perils to changes in global temperature, and where we have exposures. We created a risk map to combine exposures with each peril's sensitivity to global temperatures and compare that to the strength of the climate change signal to come up with a list of perils and regions that are either (1) urgent and actionable, (2) urgent, or (3) actionable.

Through the framework, we were able to focus our efforts onto two regions: US wildfire and Pacific typhoon. With every view of risk project we undertake, we assess the latest science and update the climate change framework to help determine if we need to adopt a climate change view of risk for each peril. Our webinar explains our climate change framework in more detail, as does our case study on page 36.

Industry participation
Hiscox follows the latest science and incorporates it into our bespoke view of risk. As part of this, our catastrophe research team attends the American Meteorological Society and the European Geophysical Union conferences to learn from and collaborate with the top geoscientists in the world. These events are beneficial to our team as they provide additional insight into the latest science and is then taken into account when we consider the HVOR.

Tailoring the Hiscox approach to risk
The NCEMG's activity enables us to develop the HVOR, which is constructed through a complex combination of the results of our own research, comparison with actual loss data, multiple factor analysis, use of multiple vendor modelling systems, as well as making adjustments where we believe the models could be deficient and to take account of new scientific developments and regulatory requirements. The overall aim is to generate an optimal model of real-world risk. The HVOR defines the most significant climate-change-related risks and attempts to account for the latest scientific understanding of climate change. Priorities for study in 2020-21 included Japan Typhoon, US inland flood, US severe convective storms and US wildfire.

For example, we have worked to quantify the impact of climate change on Asian typhoon and US wildfire perils, to understand recent major events in the context of a changing climate. The Hiscox governance process ensures that underwriter decisions are checked for compliance with our latest policy. We are lining up the next perils to quantify a climate change view of risk, using our climate change framework, and plan to investigate the strength of the climate signal compared to the noise in climate variability. That assessment will in future occur with every new view of risk.

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

How we use risk models
Hiscox licenses a number of different natural catastrophe risk models across the globe. We believe that out-of-the-box models should only be used as a starting point when forecasting risk, and that we must understand a model's application and shortcomings and how it applies to our business. This procedure is followed for all out-of-the-box models, and the resource we put into this process will match how important the model is to our business. We also blend different models together, to ensure we get the best results.

Using results to inform pricing, reserving and capital
Pricing
The composite result of all this research into climate-related risks, as expressed in the HVOR, sends a direct signal to our underwriters about insurance pricing. As the adaptations agreed by the Natural Catastrophe Exposure Management Group are used to update the actual models that the underwriters use, so pricing guidance changes in order to inform their work and becomes an important factor in their decisions on what insurance they can offer, and at what price. Most recently this has included our work on the view of risk for US wildfire, US inland flood, and Japan typhoon, which were based on careful analysis of available vendor models.

Reserving risk
We make financial provisions for unpaid claims, defence costs and related expenses to cover liabilities both from reported claims and from 'incurred but not reported' (IBNR) claims. If insufficient reserves were put aside to cover our exposures, this could affect the Group's future earnings and capital. When underwriting risks, we estimate both the likelihood of claims occurring and their cost. Our actual claims experience could exceed our expectations, requiring us to increase our levels of reserves held.

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

Our provision estimates are subject to rigorous controls and review by all areas of the business, as well as by independent actuaries. The relevant Boards approve the final provision we make, on the recommendation of dedicated reserving committees. We exercise prudence when it comes to claims reserving because, as with many matters in insurance, uncertainties remain. This approach is evident in our 2020 release of $32 million (2019: $25.9 million) from prior years' reserves. We have a cautious approach to reserving, which at year end was 9.8% above actuarial estimates (2019: 9.4%).

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

The Group monitors its capital requirements based on both external risk measures, set by regulators and the rating agencies, and its own internal guidelines for risk appetite and compares this with available capital. The Group held $2.43 billion of available capital at 31 December 2020 (2019: $2.28 billion).

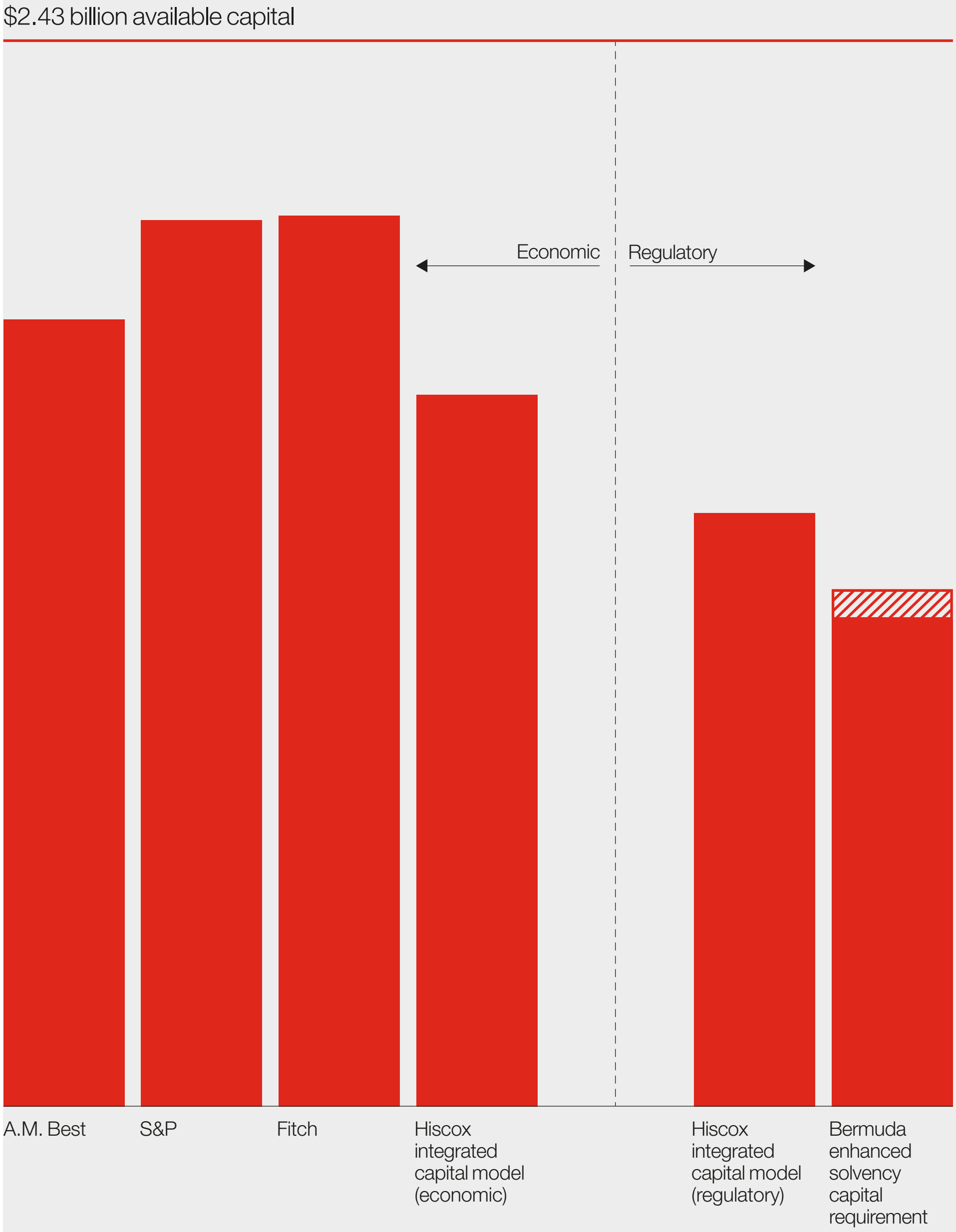
The Group's ability to attract business, particularly reinsurance, is dependent on maintaining good financial strength ratings from the major rating agencies (the Group has ratings from A.M. Best, S&P and Fitch), making it essential that we manage our capital effectively.

The Group's calculation of how much capital it needs includes an assessment of catastrophe risk. As this risk is a key driver of capital, the accuracy of such models is critical. Ongoing research into the risks linked to climate change posed by flooding and hurricanes feeds back into these models, which influence our decisions on capital management.

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

More information on our approach to risk management, pricing, capital and reserving can be found in our 2020 Report and Accounts (with a particular focus on risk management on pages 36-39, capital on pages 34-35 and reserving on pages 71-72).

Projected capital requirement

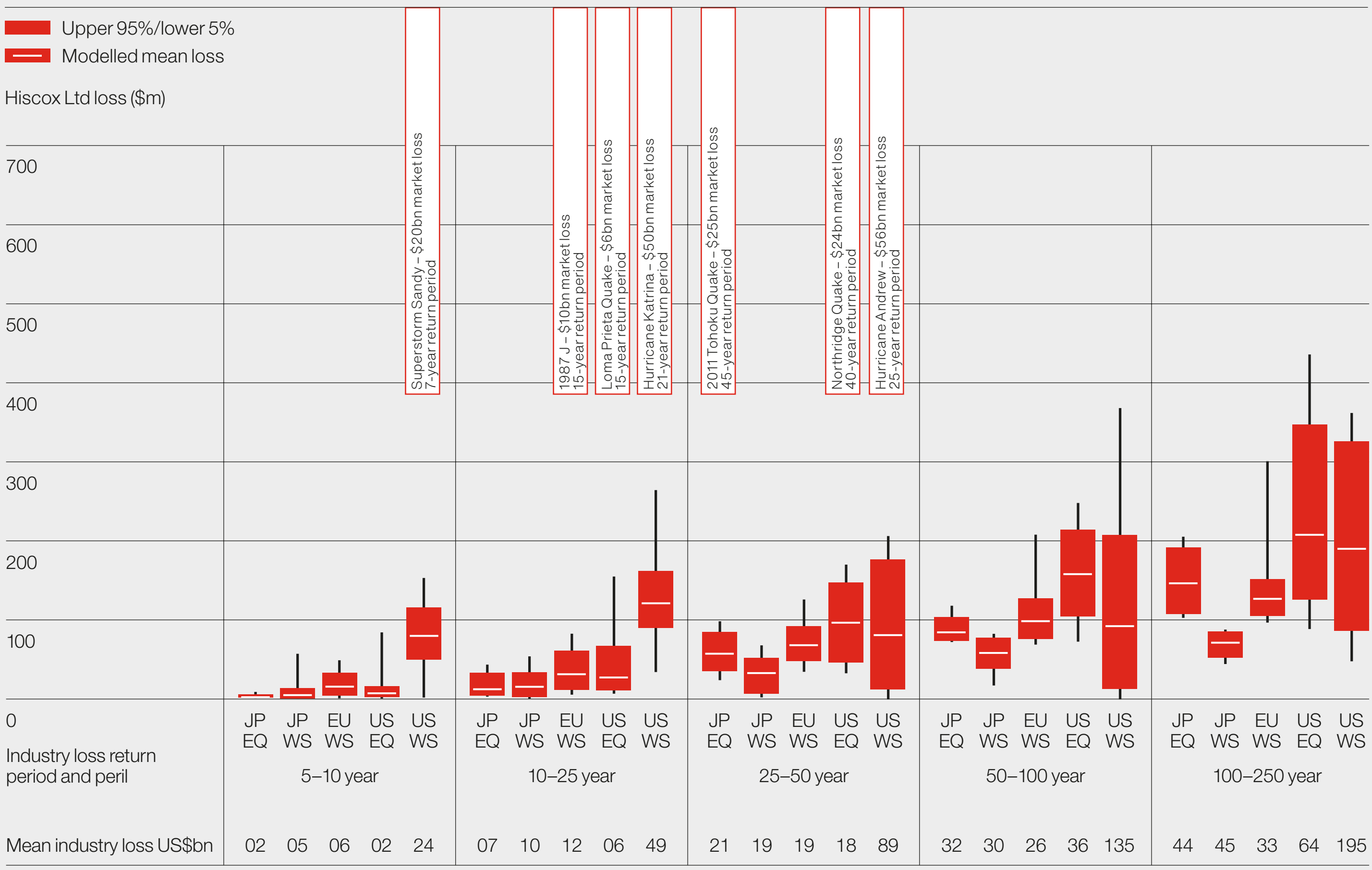


Estimated BSCR post new formula

Rating agency assessments shown are internal Hiscox assessments of the agency capital requirements on the basis of projected year-end 2020 results. Hiscox uses the internally developed Hiscox integrated capital model to assess its own capital needs on both a trading (economic) and purely regulatory basis. All capital requirements have been normalised with respect to variations in the allowable capital in each assessment for comparison to a consistent available capital figure. The available capital figure comprises net tangible assets and subordinated debt.

Property extreme loss scenarios

Boxplot and whisker diagram of Hiscox Ltd net loss ($m) for certain modelled losses
January 2021



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

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

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

A closer look our in-house catastrophe research team

Our in-house catastrophe research team are essential to our work. They do deep dives into the latest scientific evidence and work hard to understand the assumptions underlying the catastrophe models we use to ensure they are fit for purpose. We had a chat with Kelsey Mulder, our Natural Catastrophe Research Lead, and Ian Claydon, our Catastrophe Research Analyst, about what interests them, how they apply their academic skills to the task and the changing climate.

What's your passion?

Kelsey Mulder. I'm interested in helping people to make good decisions on climate issues. At university, I worked on a project to give local emergency managers in North Carolina the information they needed to make the right decisions when hurricanes or winter storms approached. My postdoctoral research focused on how we can get an accurate description of risk and uncertainty to people whose everyday jobs involve dealing with uncertainty, including climate uncertainty, so they can make informed decisions. A lot of work has been done on how ordinary people interpret the risk of climate change, but there hasn't been much done on how experts perceive that risk.

How do you apply your academic skills to your work?

Ian Claydon. There is a lot of overlap between what I was doing in my PhD, I have a doctorate in Astrophysics from the University of Surrey, with what I now do in insurance. Much of my doctoral work was on validating the output of models on star clusters and galaxy formation to ensure they made sense. Now, I basically do the same for catastrophe models. I also did an internship at a data science company, where I worked on using machine learning to help building simulations. After that, I looked around for jobs that used the same skills that I'd learned and found this one.

What are you working on at the moment?

Ian Claydon. Catastrophe models are critical to insurers and I've spent much of the past year validating the models we use for our FloodPlus product. Now, I'm working to validate the models' North American hurricane precipitation output. The models treat the three flood risks separately: hurricane-related and non-hurricane-related precipitation, and hurricane-related storm surge. But it's much harder to differentiate between them in the claims. Last year, we did a lot of work on separating hurricane from non-hurricane precipitation losses, even if the claims didn't explicitly mention what they were caused by. But separating storm surge from hurricane-related rainfall claims will be a big challenge.

Tell us how did you get into climate science?

Kelsey Mulder. When I was a child, a tornado hit my hometown in Colorado. It terrified me, so I decided to quell my fears by learning more about them and came to realise that weather is the most interesting subject in the world. I studied meteorology at the University of Oklahoma, before going to study Geography at East Carolina University, then I got my PhD in Atmospheric Science from the University of Manchester, in the UK.

How has your work changed the Hiscox view of risk?

Kelsey Mulder. Our work on US wildfire, US inland flood and Japanese typhoon has fed into the Hiscox view of risk, but so too has our other research. We've looked into how rising sea surface temperatures are affecting the frequency and severity of hurricanes. Hiscox is at the forefront of research on how social inflation is affecting the cost of hurricane claims – we're one of the only insurers to have done in-depth modelling on this issue. Also, we've looked at how urban wind canyons can heighten the impact of severe storms on cities.

How do you keep informed of the latest academic research?

Kelsey Mulder. I attend the American Meteorological Society annual conference, which attracts climate scientists from around the world. I attend as many webinars and get involved in as much science chat as I can. Also, we've been looking into co-sponsoring research with universities, and MSc students have worked with us on research projects so we do our best to bridge the gap between academia and business.

Tackling climate change through our products, services and partnerships

Improving the availability of flood insurance

We have done a lot of work on US flood in recent years and this work continues. FloodPlus is a specific flood product that we launched in 2016 for US homeowners and we expanded our offering with FloodPlus Commercial for small commercial businesses in 2018. FloodPlus has been well received since its launch, showing a clear need in the US market for broader, more competitively priced coverage than the NFIP while offering an easier purchasing mechanism and better claims process. We have also formed a flood consortium to help ensure the long-term sustainability of our private flood products, and have established the capability to offer FloodPlus as an endorsement to a Lloyd's underwritten homeowner's policy in the USA, which should again make it easier and more cost effective for customers to access flood cover. We will continue to review and refine our approach to US flood and may develop more products in time.

Contributing to natural catastrophe disaster relief

We are proud to participate in the Caribbean Catastrophe Risk Insurance Facility (CCRIF), a regional catastrophe fund for Caribbean governments to limit the financial impact of devastating hurricanes and earthquakes by quickly providing financial liquidity when a policy is triggered. It's most important that losses are paid quickly after the disasters happen, when governments need the funds the most. By supporting the CCRIF, Hiscox is contributing to help developing countries close the insurance gap.

Insuring sustainable ventures

Through our reinsurance business we offer protection to farmers around the globe, by partnering with local insurers, governments and reinsurers to provide indemnity for damage to their crops from climate-related perils. This approach enables the pooling and transfer of traditionally under-insured exposures. In Hiscox London Market, the energy underwriting team has also committed capacity to a number of projects focused on renewable energy generation, including cutting-edge onshore and offshore wind, and solar power. Most recently this included participation on two of the largest offshore windfarms commissioned, and looking forward we anticipate increasing opportunities in this space.

Supporting communicable disease programmes

Also in our reinsurance business, we have participated alongside a panel of international reinsurers on specialised pandemic and communicable disease programmes, which provide financial support for excess medical costs resulting from a major disease outbreak. This reinsurance capacity enables healthcare providers to more efficiently finance the treatment of populations exposed to sickness and communicable disease in a crisis.

Avoiding landfill for waste arising from claims

As part of our ambition to reduce the climate impact of claims settlement, we work with AnyJunk in the UK to take away the waste arising from claims. AnyJunk uses smart technology to partner with local waste collection companies to provide a low carbon footprint and environmentally responsible clearance service for bulky waste. This means that rubbish removed from our UK property claims, such as those affected by flood or fire, will not go to landfill. In 2020, AnyJunk completed 573 collections, which equated to 275,000kg of rubbish resulting from Hiscox claims, 95.3% of which was reused or recycled.

Reducing undetected water usage

In 2019, Hiscox became the first insurer to offer a Leakbot device, courtesy of HomeServe, to all its buildings insurance customers in mainland UK. LeakBot is a 'black box' that can tell if you have a suspected water leaking your home and alert you by mobile phone and email – acting as an early warning leak detector. We also cover the cost of one engineer visit per year, including labour and basic parts, to fix any problems that do arise. Not only does this reduce potential water waste, it also has underwriting implications as it reduces the cost of escape of water claims by enabling action to be taken at an earlier stage and preventing costly damage to homes. Over the last 12 months, we have provided almost 3,000 devices to our customers, bringing take-up to almost 5,000 UK customers, and we have ambitious plans to continue to increase penetration further and assess the benefits of Leakbot in more detail in 2021-22.

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

We support and undertake a range of research and development work to help inform our current business strategies when it comes to climate change. In section 2, we outline how we do this from an investment perspective. In section 3.1, there are examples of how we use each new natural catastrophe event to evolve our current thinking of climate-related risks to our business. In section 5.2, you can find more information on how we work with external partners – including but not limited to the Lighthill Risk Network – to further our understanding of climate-related issues.

Our ambitions

Performance against our 2020-21 ambitions

Status	Ambition	Update
Not achieved	To appoint and establish our new climate change research role.	Due to the impact of Covid-19 on recruitment, we have not progressed with the appointment of a new climate change research role though this is something we may consider again in the medium term.
Achieved	To define the purpose and role of the new Climate Change Steering Group (CCSG).	The concept of a CCSG has evolved and become what is now our Sustainability Steering Committee, which consists of senior leadership from across the organisation. The group's remit has an initial focus on climate, and its purpose is embedded in a robust terms of reference for the Group. We will provide a further update on the work of the committee in 2022. For more information, see page 10.

Our 2021-22 ambitions

- Undertake catastrophe research to validate the models currently used for hurricane-related precipitation flood losses.
- Increase customer take-up of Leakbot.
- Identify new ways to use our climate change framework in assessing climate-related risks and opportunities in underwriting.

Case study
Embedding a new climate change framework for natural catastrophes.

Achieving the right balance between understanding the past and predicting the future can be a challenge in insurance, especially when it comes to forecasting when and where natural catastrophes might occur. Catastrophe models don't account for climate change, as they are largely based on a long-term view, using historical data, which we don't regard as being an appropriate baseline. Scientific studies also take a long-term view – only this time looking forwards. Often, they ask the question: what will the climate be like in 20 or 30 years' time? For a business that largely underwrites risks one year at a time that isn't entirely helpful. With this in mind, our reinsurance and ILS business has devised a new framework for climate change.

This process started by devising a risk map in which we plot each of the natural catastrophe risks we underwrite and assigning a priority to each of them according to the strength of what we call 'the climate signal'. We define this as how clearly climate change is impacting the frequency, severity, or location of a peril compared to climate variability factors such as El Niño – and the potential impact on our portfolio, in terms of the exposure we have and the particular risk's sensitivity to climate change.

Japanese typhoon and Californian wildfire were the risks we decided we needed to assess for climate change most urgently, according to our risk map. This is because we saw a clear trend in claims for these particular risks and a strong signal that they would become progressively higher as a result of a changing climate over time. In adjusting our approach, we spent a long time reviewing the available academic literature as well as analysing our data and that of our clients. As a result, we have adjusted the models we use to take account of the increasing probability of more devastating wildfires and typhoons. Our work on refining our view of risk in both perils has directly fed into how we underwrite as well as our capital management. As we expect losses to be higher going forwards, our pricing has been adjusted to more accurately reflect the underwriting risk.

We are now looking at Australian wildfires to understand whether there is a detectable climate signal there too that we can leverage to further our understanding of this risk in future. US severe convective storms – including thunder and hailstorms, tornadoes and powerful straight-line windstorms – is another peril we are researching to see what impact climate change is having, so we can discover whether the models accurately reflect the current risk. Our initial opinion is that while frequency appears to be decreasing, severity is increasing. We expect this trend to continue with global warming, and we will look to adjust the models we use and refine our view of risk accordingly in line with the evolving scientific consensus.

Principle 4
Reduce the environmental impact of our business

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

“For many years we have kept a critical eye on how we operate and manage our business in an environmentally responsible way. Our Green Teams around the world drive practical improvements in our offices, we carefully track our carbon emissions and offset what we produce, and we encourage our suppliers to do the same. 2020 was a unique year as we adapted our operations in response to Covid-19 – our offices and staff cafés closed, and commuting and business travel reduced temporarily. This also had an impact on our employee engagement and action on green issues, so we are finding new ways for our employees as well as our suppliers and business partners to contribute to our responsible business agenda.”

Stéphane Flaquet
Chief Transformation Officer

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

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

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

We have an ethical guide for suppliers, which is publicly available on our website. It covers a range of issues – from anti-bribery to labour practices – including our environmental expectations. As a business, we are committed to using renewable and cleaner energy sources wherever possible to make a positive impact on the environment, and we want to work with suppliers that share our passion for responsible business, so we encourage suppliers to consider any efficiencies or improvements to their own operations and services that will have a positive impact on the environment. Our ethical guide is shared with suppliers during the tender process and suppliers are reminded of it periodically. For more information, see page 13.

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

This year, as part of our project to set new carbon emission reduction targets as a Group, we are adding to our existing tender process in that we will in future expect our suppliers to:
- measure and report their Scope 1 and 2 carbon emissions annually;
- set GHG reduction targets for Scope 1 and 2, preferably in line with a 1.5 degree trajectory and report progress regularly;
- develop and share a carbon management plan, including a plan to measure and reduce Scope 3 (value chain) emissions over a defined time frame – preferably to 2030;
- sign up to relevant industry/business commitments focused on climate change, preferably those that demonstrate a commitment to net-zero emissions by 2050 at the latest.

These new expectations are in-keeping with our work regarding our new targets, which we will publish later in the year.

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

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

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

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

We measure our global CO_2 emissions, which are independently verified by Carbon Footprint Limited. They provided a limited level of assurance of our carbon reporting and a copy of their verification statement is publicly available.

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

We have collected CO_2 emissions data in the UK since 2010, and for all our global operations since 2013. In 2020, our total measured carbon footprint was 6,665 tonnes CO_2e, compared with 7,268 in 2014. The data for 2020 was impacted by the change to ways of working as a result of Covid-19, thanks to significantly reduced business travel and office closures. We achieved our target of completing a 15% real-term reduction in our Scope 1, 2 and 3 carbon emissions per FTE by the end of 2020, relative to 2014.

Our current GHG emissions reduction targets expired at the end of 2020, so we are focused on setting new targets that align with our medium- and long-term ambitions. We will consider how we align them to the Science Based Targets initiative, which is emerging as the global standard.

In 2020-21, we have complied with UK government carbon reporting requirements for Scope 1 and 2 carbon emissions and also met the Energy Savings Opportunity Scheme requirements.

Environmental action
Our employees support a range of environmental charities around the world. In Bermuda, where we are headquartered, we have long-standing partnerships with a number of groups:
- Greenrock, a charity helping to make Bermuda socially, economically and environmentally more sustainable through education, advocacy, a green building forum and local projects;
- Bermuda Environmental Sustainability Taskforce, an advocacy group which is engaging with the community to promote sustainable management and development of the island;
- Keep Bermuda Beautiful, a charity that works to eliminate litter on the island with the support of volunteers. Hiscox has a designated area of beach through the charity's Adopt an Area initiative.

Operationally carbon neutral since 2014
We have been a carbon neutral business through offsetting since 2014, and in 2020 we worked with the Ghani Solar Renewable Power project in India (VCS 1792). We review our collaborations every year and offset 11,505 tonnes in carbon emissions for 2020 through this scheme (accounting for the emissions we produced in 2019).

This project aims to generate a clean form of electricity through renewable solar energy sources. The project activity involves installation of a 500MW solar power project in the Andhra Pradesh state of India. The project generates electricity using solar energy, and the generated electricity is exported to the regional electricity grid system in India, where it is used to power homes and businesses. In addition to providing sustainable employment (and reducing poverty), the project developer also provides improved healthcare, sanitation and educational support to the communities where the project is based.

The project is contributing to sustainable development in the followings ways:
- development of local manpower. A large workforce was required for this project which is situated in a remote location. A development centre was established at the site where local workers were identified for both skilled and less skilled work and provided with training, before being employed on the project. After the project commissioning, some of the manpower kept on working in roles focused on regular maintenance and other associated works;
- increased access to medical facilities. Alongside the project, a medical facility/mobile hospital was installed at the project site. The facility has four beds where preliminary check-ups and basic medical help can be carried out with an appointed doctor and other staff for medical emergencies. The facility is also available for use by locals;
- local school support. Support, repairs and rebuilding works were provided to local schools, including the construction of boundary walls, a playground for students and, as part of the Clean India initiative, wash rooms.

In 2021, we are working with the Vp Biosupply Wastewater Treatment and Biogas Utilisation project in Thailand (VCS 415) to offset our Group 2020 carbon emissions of 6,665 tonnes CO_2e.

Over the years, we have supported a range of offset projects around the world – including tree planting in the Great Rift Valley, and a safe water programme in Western Kenya.

We do not currently use an internal price on carbon but we use other methods to drive positive change (see Principles 4.3 and 4.4).

What are Scope 1, 2 and 3 carbon emissions?

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

Our global emissions

Our global emissions are independently verified each year by Carbon Footprint Ltd, a family-owned environmental consultancy.

	2014	2015	2016	2017	2018	2019	2020
Scope 1 – company car use, on-site gas combustion and refrigerant loss	446	591	612	742	750	747	615
Scope 2 – purchased electricity	1,916	2,113	2,175	1,889	1,582	1,628	1,586
Total (Scope 1 and 2)	2,362	2,704	2,787	2,631	2,332	2,375	2,201
Tonnes CO_2e per FTE (scope 1 and 2)	1.20	1.20	1.14	0.97	0.76	0.75	0.66
Scope 3 – air, rail and personal car business travel	4,906	4,538	4,596	5,151	6,865	9,131	4,463
Total (all Scopes 1,2 and 3)	7,268	7,242	7,383	7,782	9,198	11,505	6,665
Tonnes CO_2e per FTE (all Scopes 1, 2 and 3)	3.68	3.22	3.02	2.88	2.98	3.63	2.01

Principle 4.3

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

In addition to the carbon emissions that we measure (see section 4.2) we also assess and seek to reduce our water usage and waste. Our water usage increased from 19,837m^3 in 2019 to 27,907m^3 in 2020. In terms of waste, we generated 122 tonnes in 2020 compared with 72 tonnes in 2019 and 38% of the waste we generated was recycled. Facilities management is one of our critical supplier partnerships and environmentally-friendly measures we have in place include:

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

Travel

Hiscox has a travel policy which discourages non-essential business travel and encourages the use of alternatives where possible. However, as an international business, we engage in unavoidable travel, particularly as the regulatory environment of the insurance industry means that some business should be conducted in person.

However 2020-21 has seen us all work differently in light of Covid-19. Our business travel has reduced significantly, and this has helped to accelerate more widespread use of video conferencing and other communications channels. Driven by necessity, the uptake of tools such as WebEx and Microsoft Teams has demonstrated how much can be achieved virtually.

We are committed to reducing the impact of travel and continue to make significant investments in alternatives to travel, including use of video conferencing and our internal communications platform, Hiscom. In light of Covid-19, like other businesses we have experienced a sudden decline in business travel in 2020 which created a one-off positive impact on our business emissions. However, as a regulated business that requires some activity to be carried out in person, a degree of business travel will return as restrictions lift.

Surplus food

In London, we also support The Felix Project, which aims to tackle food waste and address hunger by redistributing surplus food that cannot be sold to charities and schools, so they can provide healthy meals to society's most vulnerable people. For every £1 we raise, The Felix Project is able to save £5 worth of nutritious food.

Clean City Awards Scheme

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

Local climate-related initiatives

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

For example, solar panels on the roof of our building in York generated 8,700KwH in electricity in 2020.

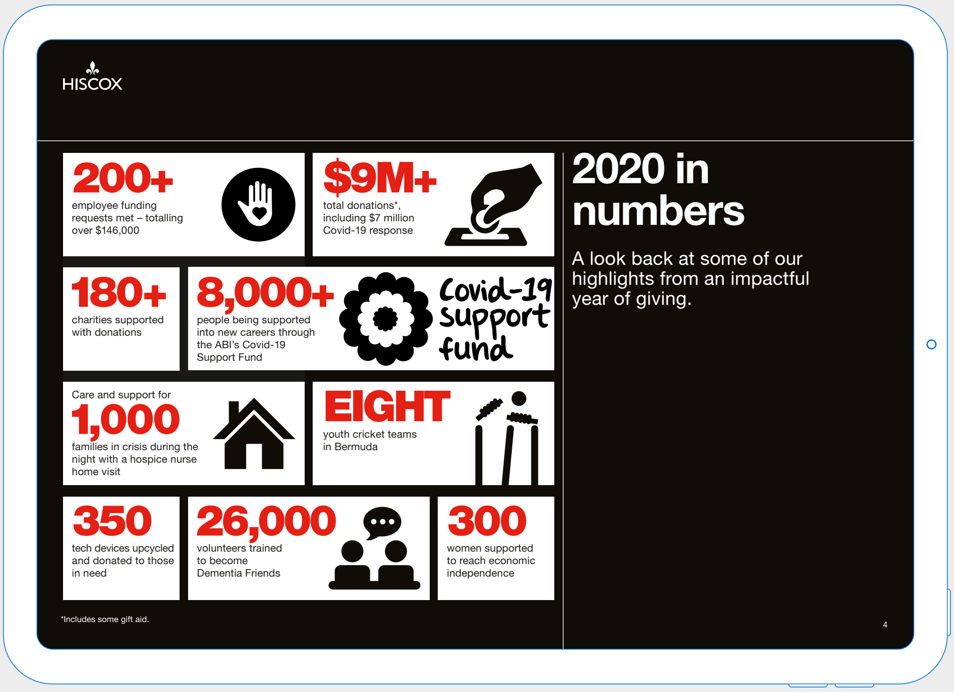
Also in the UK, we launched the Hiscox Cycle to Work Scheme, enabling eligible employees to purchase a bicycle and related equipment via salary sacrifice, making income tax and National Insurance savings at the same time as reducing their environmental impact and improving their physical and mental health. So far, 10% of eligible employees are benefiting from this.

As a result of widespread office closures and home working during 2020-21, we have not used our offices in the usual way, but we will be re-establishing many of our climate-related initiatives when we do.
These include:

- **less waste.** Our Art Café in London uses as much of its ingredients as they can, including trimmings, to make stock. They take pride in having very little food remaining at the end of service, and work with OLIO, a food sharing initiative, to redistribute leftover food our café can't use. In February 2020 alone, this resulted in 193 portions of food shared with others, meaning 39kg of food was saved while 169 kg of CO_2 was diverted;
- **recycling**. Our scheme to recycle cups has resulted in 274kg (equivalent to around 23,000 cups) being recycled since November 2019, while our work with Bio-Bean to recycle used coffee grounds has led to 2,275kg of waste coffee being turned into fuel and fertiliser since 2019;
- **meat-free Mondays.** The start of every week is 'meat-free Monday', in which diners are offered a range of plant-based meals. This is our way to engage with employees on the environmental effects of eating too much meat.

The Hiscox impact report

This year we published our second annual impact report, showcasing some of the fantastic fundraising and volunteering efforts of our staff across the Group. The report shows that in 2020 we donated more than $9 million to over 180 charitable causes – an exceptional achievement in an exceptional year.



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

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

Hiscox Green Teams
We are embedding a network of country-specific green teams across the Group to help us make positive environmental changes, with teams in the UK and Bermuda already having an impact. Their work in recent years has resulted in practical actions being taken to improve office recycling practices, reduce single-use plastics and promote climate informed choices both inside and outside of work. While our Green Teams have been limited in how they can engage with employees during local and national Covid-19 lockdowns, as their work has previously focused on office initiatives, we remain committed to extending our Green Team network and will find new ways to engage with employees as we transition to new ways of working post-Covid.

Internal communications and events
We raise environmental issues and share news with our employees via email, at events and through our employee intranet, Hiscom. In 2020, this included sharing more information on the good work being done under our environment-focused pillar of charitable giving. Our Bermuda team also hold 'green tea' events, where a climate issue is presented and debate and discussion around it is then encouraged.

Future of work
We continue to invest in and promote alternative ways of work and our experience with Covid-19 has accelerated this trend. For example, prior to the pandemic our London-based claims team moved to a flexible environment focused on 'functional use' with more efficient office utilisation, while other teams such as claims, risk, compliance and internal audit had moved to hot desking for a number of years to maximise the use of our desks in London.

A key learning from the pandemic is that we have an opportunity to implement managed flexible working among the wider employee base. From September 2021, all London based staff will adopt hybrid working styles with their time formally split between home and office. We expect that this project, which we are calling 'the future of work at Hiscox' will be adopted more widely across the Group the over time.

Our three strategic pillars for charitable giving

- Social mobility and entrepreneurship
- Protecting and preserving the environment
- Causes our people are passionate about

We also continue to invest significantly in more energy efficient hardware and in our adoption of cloud computing, which is also more energy efficient and supports employees working from any location. This investment has proven valuable in light of Covid-19 lockdown measures, when 95% of our 3,000+ workforce worked remotely, and these measures are having a positive impact on cost and carbon through lower utilities usage per full-time equivalent (FTE).

Charitable giving
Our employees also give their time and money generously to good causes including climate-related causes. In 2020 we gave over $9 million to more than 180 charities. We also published a special edition Covid-19 impact report in October 2020, and our second annual impact report in March 2021. These reports celebrate not only our charitable donations, but also our employee's fundraising and volunteering efforts, and you can see some examples of this on page 59.

Ethical savings and investments
We aim to be a responsible investor as well as an insurer, and our staff pension scheme includes the opportunity for employees to invest in green or ESG funds if they choose to. These are discussed with employees during regular pension presentations. More information on our pension funds can be found on page 21.

Our ambitions

Performance against our 2020-21 ambitions

Status	Ambition	Update
Ongoing	Finalise new carbon emission targets.	We continue to develop our new targets ahead of the end of the year, in line with our commitments as a 2015 Paris Climate Agreement signatory.
Ongoing	Refine our approach to business travel, taking into account a post-Covid world.	Like others, we are still adjusting to new ways of working amid local and national lockdowns in the countries where we operate. We will look to establish new procedures and practices during 2021-22.
Achieved	Publish a special edition 'Covid-19' impact report for 2020.	We published our special edition Covid-19 impact report in October 2020, a copy of which is available on our website.
Ongoing	Expand our network of country green teams.	This work has been impacted by Covid-19 and extended periods of remote working, which has meant we need to find new ways to engage with our teams on green issues. Establishing new country green teams remains a priority for 2021-22.
Achieved	Collate and share stories from employees to showcase the environmentally-positive changes they have made to their home life as a result of lockdown.	We have encouraged employees to make positive changes as a result of homeworking; for example Hiscox Gives (our fundraising and volunteering arm) ran a 'Donate Your Commute' initiative to encourage people to give something back to their local community in the time they otherwise would have spent commuting to work. Some of these examples are shared in our latest impact report, and we will continue to build on this work in 2021-22.

Our 2021-22 ambitions

- Establish and embed our new Group-wide carbon emission reduction targets.
- Embed our new ways of working post-Covid.
- Expand our network of country green teams.

Case study
Identifying new greenhouse gas reduction targets.

We have measured and disclosed our annual emissions, and had carbon emission reduction targets, in place for a number of years, and our most recent targets expired at the end of 2020. Previously, our target was to complete a 15% real-term reduction in our carbon emissions per full-time equivalent (FTE) by the end of 2020, relative to 2014, which we achieved. These target covered our Scope 1 (direct), Scope 2 (electricity) and certain categories of Scope 3 emissions in the form of business travel and fuel and energy related activities.

However the landscape has evolved substantially since we last set GHG reduction targets, so setting new targets in 2021 is one of our major projects for the year. As a signatory to the 2015 Paris Agreement, having targets is important to us and this time around we are looking to align them to the methodologies of the Science Based Targets initiative (SBTi) which is emerging as a global standard. This has created a more involved process for defining our targets, requiring active engagement with functions across the Group including procurement, property services and IT, all of whom have provided critical data and insight to the process, and discussion at the Executive Committee and Board level to ensure senior views are incorporated during the development stage.

The process of identifying our new targets has involved two key steps. First, we calculated our current GHG inventory across our entire value chain, and then we conducted an extensive modelling exercise to map potential target options. This created a raft of decisions along the way; whether to use location-based or market-based for Scope 2 emissions; whether to use the Absolute Contraction Approach (ACA) or Sectoral Decarbonisation Approach (SDA) from the SBTi methodology; our internal ambition level; our baseline year and our target year. In setting new targets, we are looking to get the right balance between action and engagement, so our new targets are likely to include commitments across investments, our suppliers and to investigate best practice as it emerges across underwriting and claims.

The final targets will be Board approved, published later in 2021 and – to ensure their effectiveness – supported by an active carbon management plan which will be owned and executed at a function and business area level to ensure we drive real progress over time which we will report on annually through our Annual Report.

Principle 5
Inform public policy making

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

“We are active contributors to the climate debate within our industry. Our participation is wide and varied thanks to our representation from functions including underwriting, investments and risk, all of whom contribute to a range of working groups, task forces and committees as members of the ABI, ClimateWise, Lloyd’s and the Lighthill Risk Network. This work has enabled us to promote best practice in areas such as climate-related disclosures and reporting and risk management, and we will continue to play our part – for example in standardising climate-related scenario analysis.”

Bronek Masojada
Group Chief Executive Officer

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

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

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

His Royal Highness The Prince of Wales's Sustainable Markets Initiative (SMI) Insurance Taskforce
Our Group Chief Executive Officer represents Hiscox on His Royal Highness The Prince of Wales's Sustainable Markets Initiative Insurance Taskforce, which was established in 2021. As a global 'coalition of the willing', the taskforce comprises insurance industry representatives who share the vision to accelerate global progress towards a sustainable future by putting nature, people, and the planet at the heart of global value creation. The insurance industry can individually and collectively play a leading global role in driving and accelerating the transition to a sustainable, resilient future.

It builds on the work of the Lloyd's Global Advisory Committee, which Hiscox has also been part of and which over the past two years has provided critical guidance and advice on climate-related and other issues. The SMI taskforce will work with country leaders and intergovernmental organisations to facilitate acceleration and scale of its activities where appropriate, and with insurance industry associations on cross-industry initiatives, and we look forward to contributing to this important work.

Race to Zero
In the lead up to COP 26, along with other Association of British Insurers (ABI) members, we are looking to support Race to Zero, which aligns with our longer-term impact reduction plans.

Partnerships through which we inform public policy making

ABI

ClimateWise — Insuring a sustainable future

eiopa — European Insurance and Occupational Pensions Authority

FCA — Financial Conduct Authority

Race to Zero

MSCI

Paris2015 — UN Climate Change Conference COP21·CMP11

PRI — Principles for Responsible Investment

Bank of England Prudential Regulation Authority

TCFD — Task Force on Climate-related Financial Disclosures

Principles for Responsible Investment (PRI)
As part of our commitment to responsible investing, Hiscox has this year signed up to the Principles for Responsible Investment (PRI), a United Nations supported international network of investors working together to implement its six aspirational principles. We want to play an active role in developing a more sustainable global financial system and through the PRI we believe we will be able to make a difference and contribute to the debate on ESG and investments with global policymakers. We will start reporting against the PRI's six principles from 2022.

Prudential Regulation Authority's Strategic Climate Action Plan
In the UK, subsidiary entities are progressing in strategic commitments to meet regulatory expectations with regard to managing the financial risks from climate change under the PRA's Supervisory Statement 3/19 (SS3/19), with particular regard to Board strategy and ownership of climate risk management. The PRA's requirements are expected to be embedded by year-end 2021 and are being actioned systematically through the subsidiary entity's Strategic Climate Action Plan which covers four key areas of activity; governance, risk management, scenario analysis and disclosures. The Action Plan outlines how we will manage the multi-decadal challenge of climate risks holistically across the risk profile. Within this framework, each of the UK carriers has a dedicated senior manager with overall regulatory responsibilities for managing the financial risks from climate change under the UK's Senior Managers Certificate Regime (SMCR).

Significant progress has been made in progressing our activities, approach and ownership in order to embed climate considerations in structures, processes and decision-making across various functional areas including finance, underwriting, investments and risk.

The wider Board's focus will be on the following areas:
- reviewing the proportion of portfolios and assets influenced by climate change;
- monitoring climate risk through exposure management and emerging risk forums and participating in industry forums and research;
- considering metrics through which to monitor physical and transition risks to enable effective management of climate risk and to identify business opportunities;
- considering longer-term stress testing and scenario analysis;
- completion of the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise for our Lloyd's Syndicate (S33).

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

FCA consultation: new climate-related disclosures rule
In 2020, the FCA published a consultation paper proposing a new disclosure rule for accounting periods beginning on or after 1 January 2022 for companies with a UK premium listing. The rule requires companies to state in their annual financial reports whether they comply with TCFD and to explain any non-compliance. The proposals aim to promote good disclosures to the market, in either an annual financial report or other relevant document, and to enable investors to make informed choices.

We already produce an annual climate report, which is designed to respond to the ClimateWise Principles which since 2019 have been TCFD-aligned. We are therefore well positioned to comply with this new disclosure rule and are already in the planning stages of what will be required for our 2021 Annual Report which will be published in March 2022 and which will support the existing disclosures made through our annual climate report.

PRA and FCA Climate Financial Risk Forum (CFRF)
In 2019, the PRA and FCA established the CFRF, a joint initiative which seeks to build capacity and share best practice across the financial sector to advance the response to the financial risks arising from climate change. It brings together senior representatives from across the industry to develop practical tools and approaches that firms can adopt to address climate-related financial risks and implement forward-looking strategies.

As a Lloyd's participant and an ABI member, we are represented within the forum and in February 2020 were chosen by the PRA and FCA to take part in a roundtable event where we provided industry insights to the outputs of the four CFRF working groups: disclosures; innovation; risk management and scenario analysis. We also contributed to draft versions of the workstream's output – a series of handbooks to provide practical guidance on responding to climate-related risks and opportunities.

In 2021, we took part in further roundtable events led by the ABI to discuss and share best practice on embedding risk appetite around climate risk and developing scenario analysis. We will continue to seek to be actively involved and now await further requests for consultation and input as regulatory guidance and market practice becomes further refined.

Participation in the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise
Hiscox Syndicate 33 is one of ten Lloyd's Managing Agents to have been asked to participate in the Lloyd's submission to the Bank of England's CBES exercise to provide a market view of climate risk preparedness. The objective of the CBES is to test the resilience of the current business models of the largest UK banks, insurers and the financial system to the physical and transition risks from climate change. The CBES aims to progress climate thinking across the industry and establish an initial aggregate view of the risk exposures that the market may be facing over the next 30 years, as well as the resilience of the financial system as a whole to these risks.

These scenarios will look at material impacts to our assets and liabilities across a 30 year horizon and the adjustments and management actions that we may need to make as a result. A fixed balance sheet will be stressed through three scenarios (early policy action, late policy action and no additional policy action) which look across physical, transition and liability risk exposures and include various contextual variables such as climate litigation, macro-economic changes and our own prospective management actions.

By participating in the CBES we aim to advance our understanding of:
- the financial exposures of the market to climate related financial risks;
- the specific business model impact, giving us an opportunity to assess and evaluate the impact on our solvency and liquidity profile and establish business appetite around climate related financial risk;
- our long-term management of climate-related financial risks.

The exercise will further inform a climate risk stress/scenario within the 2022 UK entity ORSAs, leveraging any lessons learned from the CBES as well as the developing regulatory guidance on scenario analysis. At a sector level, our participation allows the PRA to assess market resilience. Taking part in the CBES additionally gives us the opportunity to engage with the regulator to inform the development of a consistent and effective approach to climate-focused scenario analysis and policy by providing feedback on aspects and outcomes of the exercise.

Lloyd's Disaster Risk Facility (DRF)
The Lloyd's Disaster Risk Facility launched in 2015 to enable the Lloyd's market to assist disaster-struck countries with relief financing. The facility works with NGOs and governments around the work to make a difference where it matters, and is now a consortium of seven Lloyd's Syndicates, including Hiscox.

ClimateWise
Our participation in ClimateWise, the global insurance industry network focused on climate-related issues, is threefold. Our ESG Executive Sponsor sits on their c-suite level Insurance Advisory Council; our corporate affairs lead is an attendee of the Managing Committee, and our Head of Underwriting Insight participates in their net-zero underwriting workstream.

EIOPA guidance on climate change risk scenario analysis
Regulation in the EU in the area of sustainable finance continues to evolve. In April 2021, the European Commission announced that its Renewed Sustainable Finance Strategy will focus on a number of actions, including a better integration of climate and environmental risks into the framework of financial institutions. Specifically, the European Insurance and Occupational Pensions Authority (EIOPA), published their opinion on the integration and use of climate change risk scenarios by insurers. EIOPA, in a similar way to UK regulators, considers that the (re)insurance industry will be impacted by climate change-related physical and transition risks and should embed a forward-looking management of these risks to ensure the long-term solvency and viability of the industry.

Supervisory expectations are under development that would expect insurers to identify material climate change risk exposures and integrate climate change within internal risk management structures. Additionally, EIOPA considers that insurers should subject material climate change risks to at least two long-term climate scenarios, where appropriate:
- a climate change risk scenario where the global temperature increase remains below 2°C, preferably no more than 1.5°C, in line with the EU commitments;
- a climate change risk scenario where the global temperature increase exceeds 2°C.

We will continue to monitor the development of European plans and proposals. We will leverage where applicable activities in the UK which respond to similar regulatory expectations to comply with any future implementation requirements.

Responding to EIOPA's Sustainable Finance Disclosure Regulation (SFDR)
The SFDR, which came into effect in March 2021, establishes sustainability disclosure obligations for the financial market and particularly mandates the integration of sustainability risks in investment processes and products. As such, we are impacted via the Hiscox ILS platform which carries out marketing activity within the EU.

In compliance with this regulation, Hiscox ILS is now including an SFDR article 6 disclosure in each of the Fund's Alternative Investment Fund Managers Directive (AIFMD) supplement. This discloses the manner in which sustainability risks are integrated into the investment decisions of the Fund as well as an assessment of the likely impacts of these risks on the returns of the Fund. For the purposes of SFDR, the Funds are not currently seeking to qualify as financial products that promote environmental or social characteristics or have sustainable investment as their objective. Accordingly, the disclosures required under articles 8 and 9 of the SFDR are not applicable to the Fund. Sustainability risks are, however, incorporated into the investment process in a softer way and we are currently working towards formalising this process before seeking article 8 ("light green") status.

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

Lloyd's Market Association (LMA) ESG group
We also participate in the Lloyd's Market Association's ESG group, which meets regularly to share insight and best practice on ESG and climate-related issues across the Lloyd's market. Recent discussion topics have included fossil fuel ambition statements, greenhouse gas reporting, navigating the various ESG standards, climate risk, the UN Sustainability Development Goals, PRI commitment and setting targets. Similar to other groups we are involved in, these serve to improve market knowledge, awareness and understanding through collaboration and here at Hiscox we have benefitted from this shared insight – for example, during the process of signing up to the PRI.

Paris Agreement
Hiscox is a signatory of the landmark 2015 Paris Climate Agreement, which brings together nations for a common cause to combat climate change. It is through this pledge that we demonstrate our support for the goal to limit global warming temperature rises to less than 2°C.

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

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

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

Task Force on Climate-related Financial Disclosures (TCFD)

A result of the Paris Agreement has been to place increasing pressure on financial institutions to manage climate risks (and opportunities) and publicly disclose them. The work of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) is leading in this space. The primary aim of the TCFD is to develop voluntary, consistent climate-related financial risk disclosures to enable companies to provide relevant information to investors, lenders, insurers, and other stakeholders. While we have informally considered the TCFD recommendations for some time, in 2019 we formally and publicly pledged our support for the TCFD recommendations. We reported against the new TCFD-aligned ClimateWise Principles for the first time in our 2019 climate report, and again in 2020 and this year, and will include additional TCFD-related disclosures in our 2021 Annual Report alongside our 2021 climate report.

Contributing to the public debate from a research and modelling perspective

We engage with public debate about climate change in a number of ways, from technical research and policy responses to reacting to world weather events. It is often discussed in press interviews and investor meetings, and key spokespeople on the subject also contribute to roundtables and other events. In addition, members of our natural catastrophe research team represent Hiscox at key global events such as the American Meteorological Conference each year. More information on this can be found in section 5.2, 6.1 and 6.2.

Potential increase in climate-related expectations in the USA

We continue to monitor with interest the development of climate-related expectations on insurers in the USA and in particular the development of proposals for the introduction of mandatory disclosures. The Federal Insurance Office is expected to play a greater role in steering (re)insurers towards carbon neutrality following the Federal Reserve becoming a full member of the Network for Greening the Financial System in December 2020. Additionally, we welcome the establishment of a Climate Change and Resiliency Task Force in 2021 by the National Association of Insurance Commissioners.

We recognise the lag in climate reporting, policy and regulation within North America in comparison to Europe and Asia Pacific and will respond accordingly to any future development of climate-related expectations. Where relevant, existing Group climate risk mitigation activities will be leveraged and rolled out across the Group to our US carriers. Climate risk was considered a key focus in emerging risk discussions with the US Management Team in December 2020 and discussed within the 2021 US legal entity's ORSA.

Principle 5.2

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

We publish our own insight and research where appropriate and participate in industry events and other collaborations to share what we have learnt. We also share climate-related insights and research with key stakeholders including our brokers and customers through articles and blogs, and more information on this activity from 2020-21 can be found in sections 6.1 and 6.2.

We have also continued to develop some of our long-standing external collaborations where we support the publication of climate-related research. We work with a wide variety of risk modelling vendors and/or data providers in the market, not only on an ongoing basis but also on specific projects. In 2020-21, specific projects have included a fundamental reappraisal of Japanese windstorm risk after two large losses years, which has enabled us to evolve our modelling approach and as a result improve underwriting performance in this line of business. We also shared this insight with the model vendors to help improve the model for all users in the future and ensure wider industry impact.

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

In addition, we are proud of our association with the Lighthill Risk Network and continue to look at new meaningful ways we can collaborate with them. We already participate in the Lighthill Risk Network steering committee and liaise with them to encourage the sharing of expertise, and sponsor projects, for example, updating data in open-source models.

Our ambitions

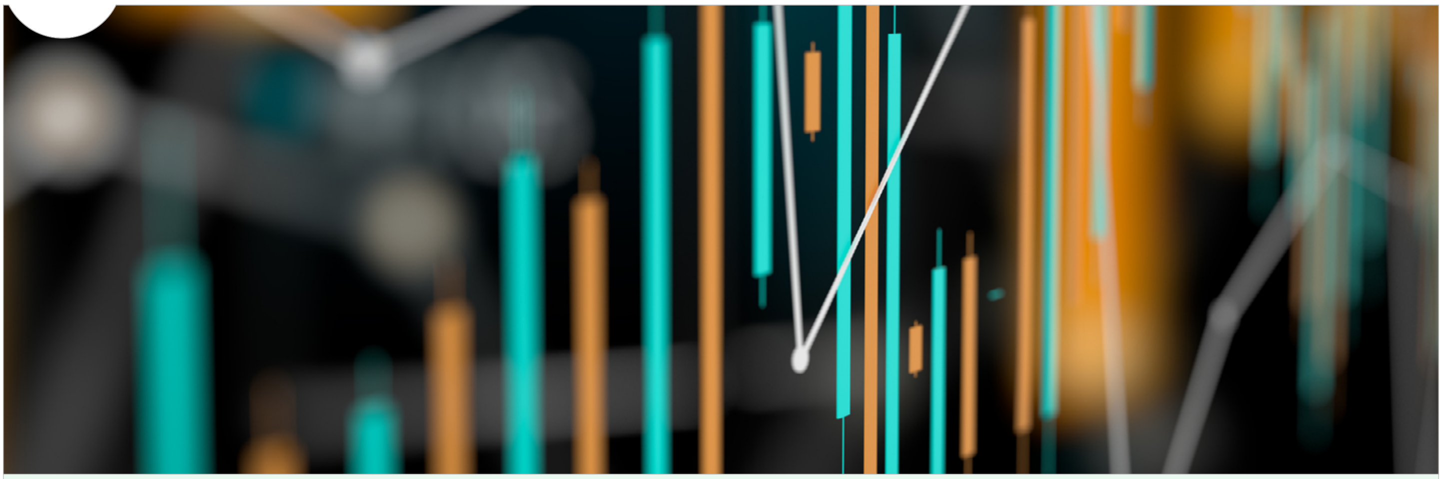
Performance against our 2020-21 ambitions

Status	Ambition	Update
Ongoing	Continue to evolve our PRA action plan for UK entities, with a focus on producing and publishing a set of metrics we will use to assess our progress on ESG issues, starting with climate issues.	We continue to build on the strategic climate action plan we have in place for our UK entities. This work is led by the senior managers we have appointed with climate responsibility, and will be supported by the activity of our Sustainability Steering Committee.
Achieved	Cascade the PRA and FCA CFRF handbooks throughout the business, and find ways to adopt their practical guidance, where appropriate.	The CFRF handbooks have been used as guidance as we continue to refine our approach to incorporating the financial risks from climate change within risk management and scenario analysis in particular. The Group Risk Team has also contributed to the development of further CFRF handbooks relating to climate risk appetite.

Our 2021-22 ambitions

- Complete our contribution to the Lloyd’s submission for the Bank of England’s Climate Biennial Exploratory Scenario (CBES) exercise and implement any lessons learnt within the business.
- Adopt the new climate-related disclosure rules from the FCA in our 2021 Annual Report when it is published in March 2022.
- Contribute to the Sustainable Markets Initiative and ClimateWise workstreams, to help promote existing green underwriting products and create new ones.

Case study
Collaborating on the development of net-zero underwriting tools and practices.



We recognise that insurers will play an important role in supporting the transition to a low-carbon global economy. It is why the industry is increasingly looking at how to use underwriting to help customers reduce their carbon footprints, in the same way it has used its investor power in the past to encourage firms to focus on their climate performance.

To better understand the issues and methods being discussed within the industry, as well as academia and international organisations, and to help shape that conversation, in 2021 Hiscox joined the ClimateWise Net-Zero Underwriting Task Group.

The Task Group's aim is to brief the COP26 UN Climate Change Conference, taking place in Glasgow in November 2021, on how net-zero underwriting tools and practices can help achieve the goal of becoming carbon neutral. The outputs of the Task Group will be compiled and published in a report, including case studies resulting from the pilots, by the end of the year.

As a participant in this important programme, we will work with other Task Group members on a number of pilot projects that are being explored. Each pilot will examine a different way in which, as an industry, we could look to standardise the measurement of climate-related risks in underwriting portfolios, as well as the transition risks created by moving – in line with the Paris Agreement on climate – towards net-zero by 2050.

By engaging with and road-testing a range of underwriting tools and practices, and working together as an industry and with academia to solve a common problem, the industry can move forward faster and we are proud to play our part in this important climate-related development.

Principle 6
Support climate awareness amongst our customers/clients

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

"Flood is an area that we have been helping our residential and commercial customers mitigate for a number of years. Through our research and claims experience, we can see that the threat is evolving, thanks to factors including climate change, rapid urbanisation, and building in flood plains. We need to keep pace with the risk which is why we continue to invest in furthering our understanding of it, as only then can we best support our customers. We now serve every US state except Alaska and have over 75,000 FloodPlus policyholders, with ambitious plans to build on these strong foundations in 2021-22.

Daniel Alpay
Line Underwriter – Flood

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

Our purpose is to help our customers manage their risks so they can fulfil their ambitions, whether that is to grow their business or simply to sleep safe at night. Our approach to climate-related issues is an important part of that purpose, and in this regard we are guided by the Hiscox ESG framework (see page 4). This strategy, along with proof points of our approach, are shared with customers and clients in a number of different ways – both directly and indirectly.

Through our customer/client communications
We share information on climate-related issues with our customers and clients directly in our meetings with them and create tools that enable us to support those discussions. In 2020-21 this has included creating an ESG/climate-focused infographic for underwriters to share with clients during renewal and new business conversations to stimulate debate around our approach and in particular our withdrawal from industries such as thermal coal and oil sands. Examples of customer/client communications can be found on pages 58-60.

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

Through investor communications
ESG and climate-related issues are increasingly part of our direct dialogue with analysts and investors. To support those conversations, we have produced an investor-focused ESG presentation, which is publicly available on our Hiscox Group website. This presentation complements other ESG and climate-related communications to analysts and investors which take place as part of our preliminary and interim results presentations each year. A copy of some slides from this presentation can be found on page 58.

Through the media
We contribute to the climate debate by publishing relevant insight and research – either our own or by working with others – and also through sharing news and views. During 2020-21 this has included:
- a blog on how parametric solutions deliver crop protection to developing countries;
- a blog to support our broker video on underwriting in a changing climate. This was also supported by a live webinar we conducted on the same topic for the Association of Lloyd's Members (ALM) and video interview we did with insurance trade publication, Intelligent Insurer;
- a blog featuring Jessie Murdoch, one of our Senior Catastrophe Modellers, talking about her role on our Bermuda Green Team;
- an article (page 20) that our Bermuda Green Team wrote for Going Green Magazine.

Through our websites
Our corporate website – which is viewed by our customers, broker partners, suppliers, other businesses, analysts, investors and journalists – has a section dedicated to the environment (including climate issues) and is one of our richest sources for explaining how we go about being a responsible business. Our environment page – which has been viewed almost 1,300 times over the last 12 months – includes:
- our annual climate report, which has been downloaded more than 500 times;
- our climate change positioning paper, a summary document which provides a single view of how we think about and are responding to climate-related issues across the Group;
- information on our carbon emissions and carbon management plan, including our carbon offset programme;
- links to our ESG-related reports, policies and disclosures;
- links to recent climate-related papers and articles we have published;
- our membership of ClimateWise;
- an explanation of how we help customers adapt to climate change;
- a video on how our FloodXtra product is helping US customers with insufficient or no flood cover;
- our market resilience white paper, the result of an initiative spearheaded by our Chairman involving 23 other organisations in London to test their preparedness for a major hurricane simultaneously with a large-scale cyber attack;
- information on our ‘Green Teams’ and our eco-partnership.

Our website also includes policy statements for all of our ESG and climate-related policies including our environmental policy, ESG exclusions policy, and responsible investment policy. For more information, see page 13.

Our annual climate report contains our view of climate risks and the actions we are taking to tackle them. We also have a section on ESG activity in our Annual Report, which can be found on pages 42-49 of our 2020 Report and Accounts. This important document is the primary source of information on Hiscox and is commonly referred to by analysts, investors, journalists, brokers and customers, and in it we set out how we think about ESG (including climate activity), how we achieve Board oversight of these issues, as well as recent activity.

Through our social media channels
From time to time we also share climate-related information through our social media channels, predominantly LinkedIn and Instagram. We have a very active Instagram feed (@hiscoxinsurance) through which we share news relating to our employees' work on environmental and social causes. Our staff are actively engaged in this, sharing pictures celebrating their fundraising successes. During 2020-21, climate-related social media activity has included posts about World Environment Day and also our impact report which showcases some of our efforts to support biodiversity.

Through our public reporting
We understand that investors require a level of information that enables them to make climate-related investment decisions on companies. We also understand that, more generally, the public are increasingly interested in understanding how a company is performing when it comes to climate-related issues. That's why we are committed to being assessed on our progress on environmental issues by participating in a number of independent, global ESG standards. These currently include:
- CDP;
- ClimateWise;
- Dow Jones Sustainability Index;
- FTSE4Good;
- Institutional Shareholder Services (ISS);
- MSCI;
- Sustainalytics.

See page 6 for our latest scores.

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

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

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

Examples of our thought leadership on climate-related risks and opportunities can be found in Principle 6.1.

We also contribute to the climate debate through our work with, and support of, the ABI, Lloyd's and ClimateWise. In 2020-21, they have published some important work on climate-related risks and opportunities.

The Association of British Insurers (ABI)
We are a company member of the Association of British Insurers (ABI) and our Chief Executive Officer, Bronek Masojada, is an ABI board member, as well as its Senior Independent Director.

In 2020-21, the ABI's work on climate-related issues included a joint report with Flood Re on the need to keep the UK's flood defences in good condition, in which it showed how much protection is offered by well-maintained defences to vulnerable communities. The ABI joined the UN Environment Programme's Principles for Sustainable Insurance initiative and established a new Board climate change committee to help co-ordinate and drive collective focus on climate change and sustainability. It also co-sponsored a report by the Pension Policy Institute into 'Engaging with ESG' on how the pensions industry can help address climate change.

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

ClimateWise
We are a founding member of ClimateWise. We participate as one of more than 20 members of the ClimateWise managing committee, and our ESG Executive Sponsor is a member of the CISL Insurance Advisory Council.

During the year, ClimateWise published their annual Principles Review which highlighted member's performance against their TCFD-aligned Principles. In March 2021, it published a paper highlighting the role of insurance underwriting in mitigating climate risks and supporting the transition to a resilient net zero economy. It also developed a framework to support businesses to become carbon neutral by 2050 and a report setting out ten principles for businesses to deliver a sustainable purpose.

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

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

Lloyd's
In June 2021, HRH The Prince of Wales launched his Sustainable Markets Initiative Insurance Task Force at Lloyd's, which will chair the task force. Bronek Masojada, our Group Chief Executive Officer, will sit on the task force, which will provide a platform for the sector to collectively advance the world's progress towards a resilient, net-zero economy. A number of our underwriters are also contributing to workstreams that contribute to the task force, with a focus on how the market promotes green underwriting products and the development of new green underwriting products.

It has published a Statement of Intent, committing to offer climate positive financing and risk management solutions to support and encourage individuals and businesses around the world to accelerate their transition to a sustainable future. It will also work with governments to establish a public-private disaster resilience, response and recovery framework, which will help protect developing nations from the evolving economic and societal impacts of climate change.

To support the rapid growth of green projects and innovation, the task force will develop a framework to help unlock the more than $30 trillion in assets under management, increasingly directing capital towards investments that drive climate-positive outcomes in both developed and developing nations.

In December, Lloyd's published its first Environmental, Social and Governance Report, which details its ambitions to fully integrate sustainability into all of Lloyd's business activities, as well as setting out a range of initiatives to support the global transition to net-zero by 2050, and a roadmap for making all its own operation net-zero by 2025. As a Lloyd's participant, we are supportive of Lloyd's ambitions and our ESG exclusions policy aligns with them.

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

We have worked to try to bridge the insurance gap, and in recent years have focused on devising new ways to help address the lack of adequate flood cover for many homeowners:

- FloodPlus is an award-winning product devised by our London Market team that offers higher limits and wider coverage than those provided by the National Flood Insurance Program (NFIP), the US government-backed scheme. It also offers premium discounts for those who take steps to minimise the risk to their property from flood.
- FloodXtra is our reinsurance product that complements the flood risks we underwrite through our commercial property book in Hiscox USA and through FloodPlus.

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

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

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

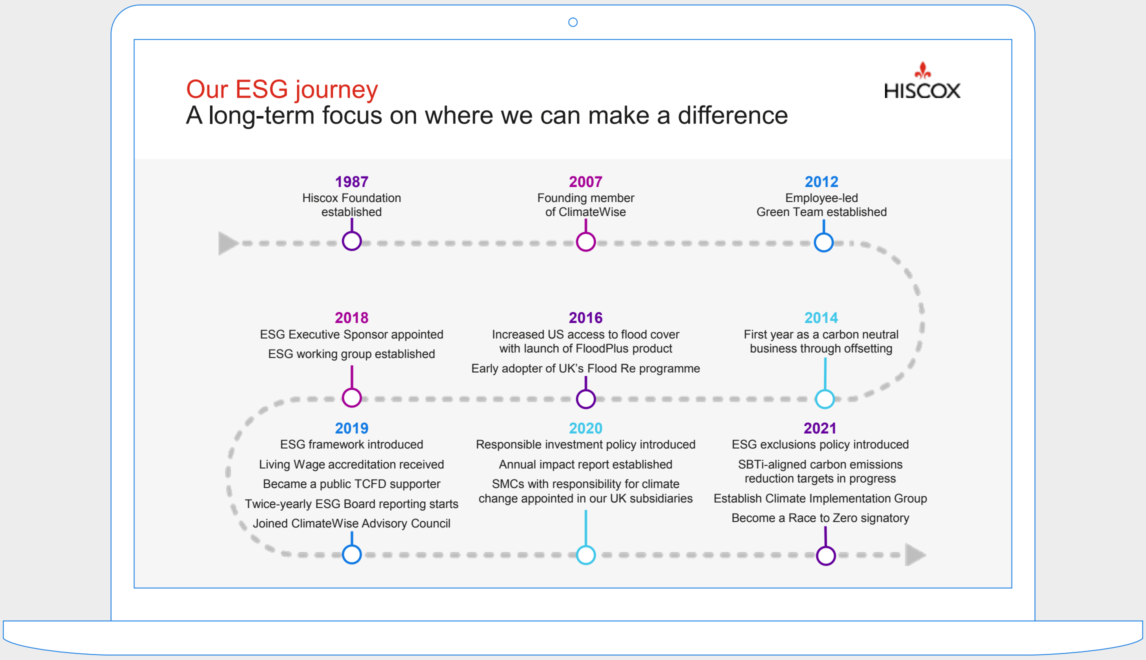
We also provide cover for climate-related technological innovations, as insurance can aid their take-up. Interest is growing for insurance products and services for environmental risks and climate change, and we have responded to that through our new product development process and will continue to do so. This includes:

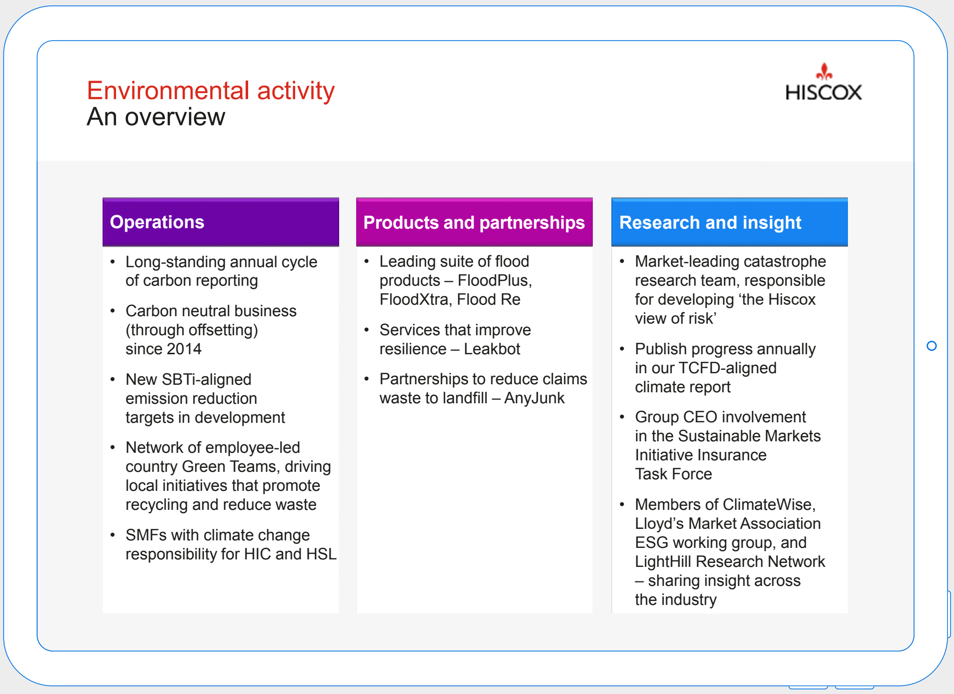
- solar panel cover for policyholders with home insurance;
- enhanced insurance for environmental industry professionals, covering public indemnity insurance for survey work, defence costs for investigation under the Environmental Protection, Health and Safety, and Cover for Corporate Manslaughter Acts and Pollution;
- bespoke insurance for energy assessors who rate the energy efficiency of properties under the government's regulations.

Our commitment to reducing the environmental impact of our business extends to how we handle claims. We have a partnership with AnyJunk, an environmental waste firm, so that rubbish removed from our UK property claims, such as those affected by flood or fire, will not go to landfill. In 2020, AnyJunk completed 573 collections for Hiscox, which resulted in them collecting a total of 275,000kg of rubbish arising from Hiscox claims, 95.3% of which was reused or recycled.

External communications to our key stakeholders including customers, business partners and investors

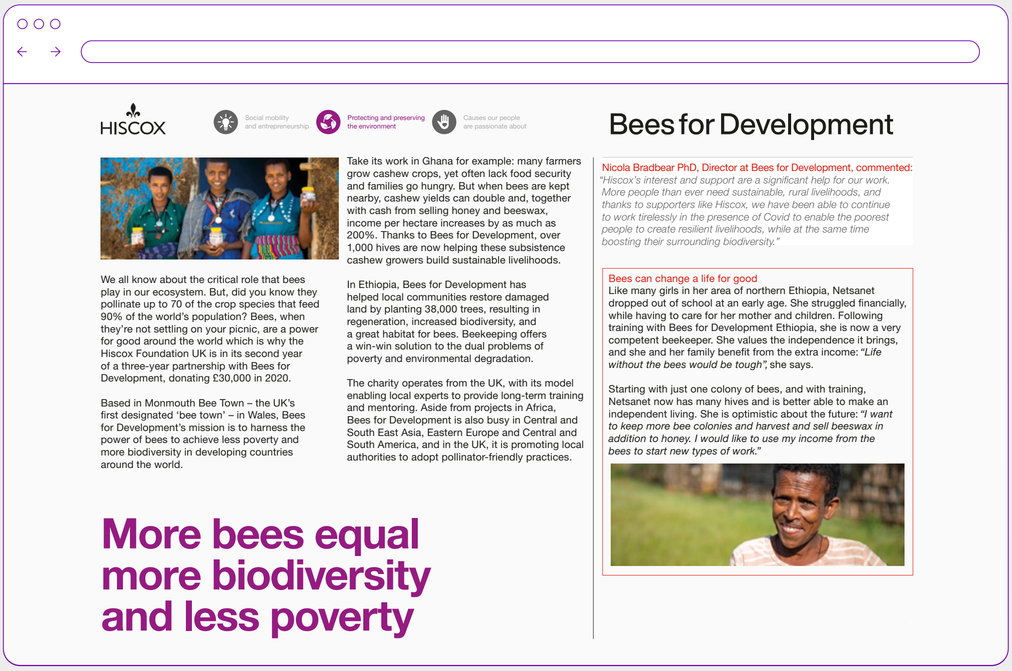
The ESG presentation we developed for investors in 2021 is shared during investor meetings and is publicly available within the investor section of our corporate website, hiscoxgroup.com. This includes information on how our climate journey has evolved over time, and the steps we are taking to address the environmental element of ESG through our operations, products and partnerships, and research and insight.





External communications to our key stakeholders including customers, business partners and investors

Through our annual impact report we showcase some of the environmental causes we are supporting across the business. Our 2020 report is published on our corporate website and has been shared through social media and directly with key stakeholders, and includes the work we have been doing to support biodiversity in different ways and in different parts of the world.


HISCOX

Social mobility and entrepreneurship | Protecting and preserving the environment | Causes our people are passionate about

Bees for Development

We all know about the critical role that bees play in our ecosystem. But, did you know they pollinate up to 70 of the crop species that feed 90% of the world's population? Bees, when they're not settling on your picnic, are a power for good around the world which is why the Hiscox Foundation UK is in its second year of a three-year partnership with Bees for Development, donating £30,000 in 2020.

Based in Monmouth Bee Town – the UK's first designated 'bee town' – in Wales, Bees for Development's mission is to harness the power of bees to achieve less poverty and more biodiversity in developing countries around the world.

Take its work in Ghana for example: many farmers grow cashew crops, yet often lack food security and families go hungry. But when bees are kept nearby, cashew yields can double and, together with cash from selling honey and beeswax, income per hectare increases by as much as 200%. Thanks to Bees for Development, over 1,000 hives are now helping these subsistence cashew growers build sustainable livelihoods.

In Ethiopia, Bees for Development has helped local communities restore damaged land by planting 38,000 trees, resulting in regeneration, increased biodiversity, and a great habitat for bees. Beekeeping offers a win-win solution to the dual problems of poverty and environmental degradation.

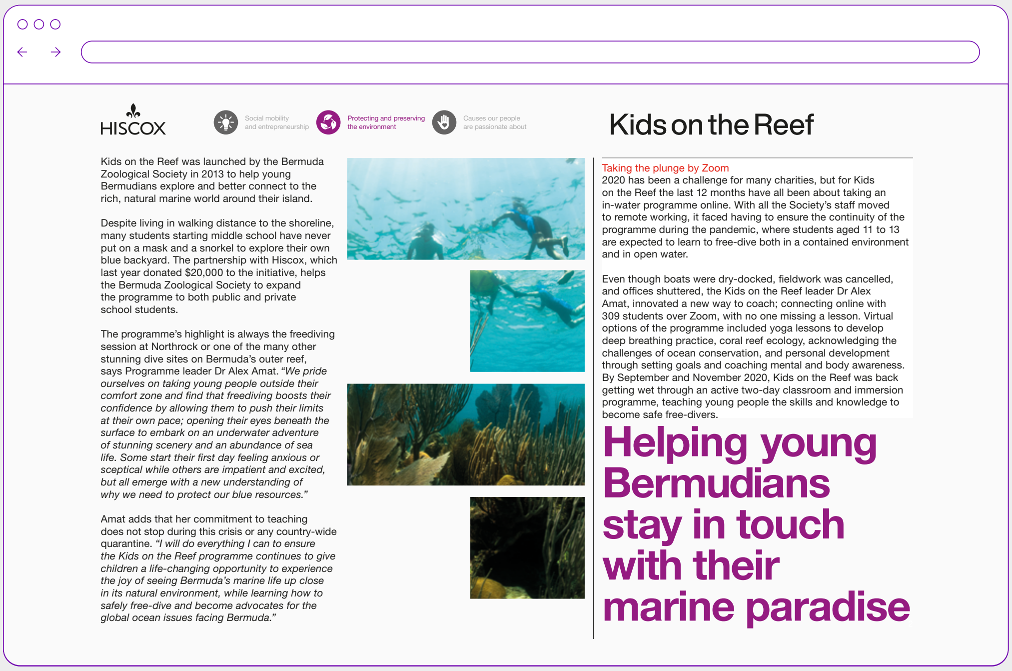
The charity operates from the UK, with its model enabling local experts to provide long-term training and mentoring. Aside from projects in Africa, Bees for Development is also busy in Central and South East Asia, Eastern Europe and Central and South America, and in the UK, it is promoting local authorities to adopt pollinator-friendly practices.

Nicola Bradbear PhD, Director at Bees for Development, commented:
"Hiscox's interest and support are a significant help for our work. More people than ever need sustainable, rural livelihoods, and thanks to supporters like Hiscox, we have been able to continue to work tirelessly in the presence of Covid to enable the poorest people to create resilient livelihoods, while at the same time boosting their surrounding biodiversity."

Bees can change a life for good
Like many girls in her area of northern Ethiopia, Netsanet dropped out of school at an early age. She struggled financially, while having to care for her mother and children. Following training with Bees for Development Ethiopia, she is now a very competent beekeeper. She values the independence it brings, and she and her family benefit from the extra income: *"Life without the bees would be tough",* she says.

Starting with just one colony of bees, and with training, Netsanet now has many hives and is better able to make an independent living. She is optimistic about the future: *"I want to keep more bee colonies and harvest and sell beeswax in addition to honey. I would like to use my income from the bees to start new types of work."*

More bees equal more biodiversity and less poverty


HISCOX

Social mobility and entrepreneurship | Protecting and preserving the environment | Causes our people are passionate about

Kids on the Reef

Kids on the Reef was launched by the Bermuda Zoological Society in 2013 to help young Bermudians explore and better connect to the rich, natural marine world around their island.

Despite living in walking distance to the shoreline, many students starting middle school have never put on a mask and a snorkel to explore their own blue backyard. The partnership with Hiscox, which last year donated $20,000 to the initiative, helps the Bermuda Zoological Society to expand the programme to both public and private school students.

The programme's highlight is always the freediving session at Northrock or one of the many other stunning dive sites on Bermuda's outer reef, says Programme leader Dr Alex Amat. *"We pride ourselves on taking young people outside their comfort zone and find that freediving boosts their confidence by allowing them to push their limits at their own pace; opening their eyes beneath the surface to embark on an underwater adventure of stunning scenery and an abundance of sea life. Some start their first day feeling anxious or sceptical while others are impatient and excited, but all emerge with a new understanding of why we need to protect our blue resources."*

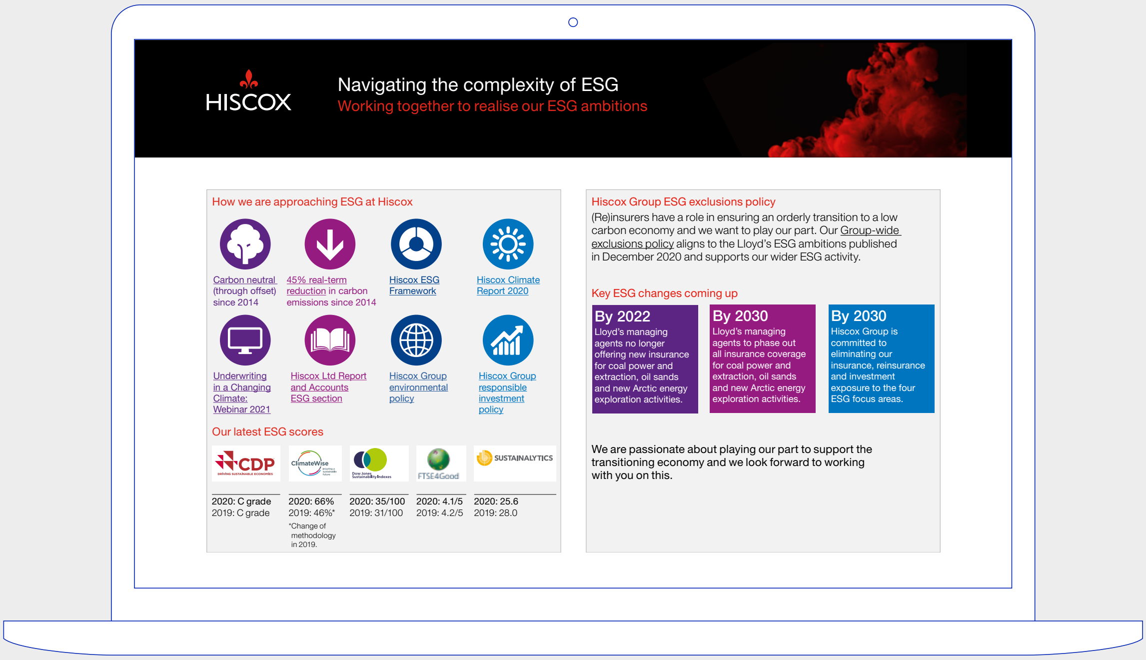
Amat adds that her commitment to teaching does not stop during this crisis or any country-wide quarantine. *"I will do everything I can to ensure the Kids on the Reef programme continues to give children a life-changing opportunity to experience the joy of seeing Bermuda's marine life up close in its natural environment, while learning how to safely free-dive and become advocates for the global ocean issues facing Bermuda."*

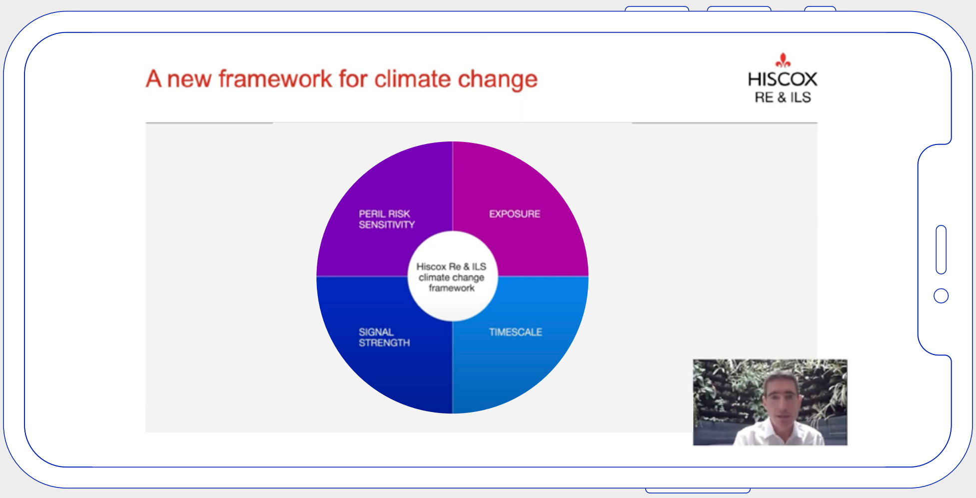
Taking the plunge by Zoom
2020 has been a challenge for many charities, but for Kids on the Reef the last 12 months have all been about taking an in-water programme online. With all the Society's staff moved to remote working, it faced having to ensure the continuity of the programme during the pandemic, where students aged 11 to 13 are expected to learn to free-dive both in a contained environment and in open water.

Even though boats were dry-docked, fieldwork was cancelled, and offices shuttered, the Kids on the Reef leader Dr Alex Amat, innovated a new way to coach; connecting online with 309 students over Zoom, with no one missing a lesson. Virtual options of the programme included yoga lessons to develop deep breathing practice, coral reef ecology, acknowledging the challenges of ocean conservation, and personal development through setting goals and coaching mental and body awareness. By September and November 2020, Kids on the Reef was back getting wet through an active two-day classroom and immersion programme, teaching young people the skills and knowledge to become safe free-divers.

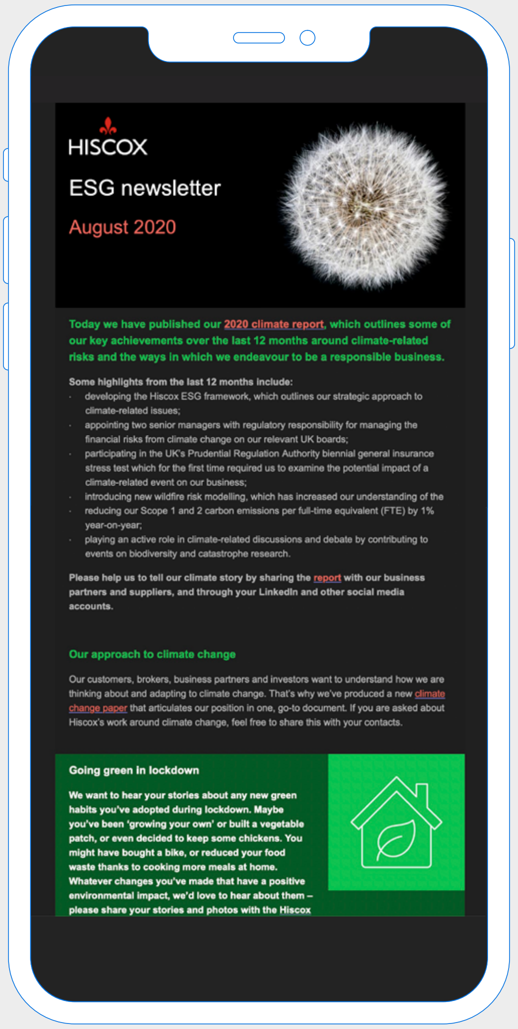
Helping young Bermudians stay in touch with their marine paradise

External communications to our key stakeholders including customers, business partners and investors
We have been busy engaging with clients and partners on climate-related issues. We have developed an ESG infographic which supports the conversations we are having with clients about our ESG Exclusions Policy, and a Climate Change Framework which is used to assess and price climate-exposed risks. The webinar that our Hiscox Re & ILS team also produced, 'Underwriting in a changing climate', explains the Hiscox Re & ILS approach to climate change and is publicly available here.





Engaging our employees in climate issues through regular internal communications that share progress
We have a quarterly ESG newsletter which shares items such as the publication of our annual climate report, information on our ESG exclusions policy and its implementation, and our approach to carbon reporting and offsetting. This news is shared with our 3,000+ employees via email and the intranet, and drives engagement and involvement internally.



HISCOX

ESG newsletter

August 2020

Today we have published our 2020 climate report, which outlines some of our key achievements over the last 12 months around climate-related risks and the ways in which we endeavour to be a responsible business.

Some highlights from the last 12 months include:
- developing the Hiscox ESG framework, which outlines our strategic approach to climate-related issues;
- appointing two senior managers with regulatory responsibility for managing the financial risks from climate change on our relevant UK boards;
- participating in the UK's Prudential Regulation Authority biennial general insurance stress test which for the first time required us to examine the potential impact of a climate-related event on our business;
- introducing new wildfire risk modelling, which has increased our understanding of the
- reducing our Scope 1 and 2 carbon emissions per full-time equivalent (FTE) by 1% year-on-year;
- playing an active role in climate-related discussions and debate by contributing to events on biodiversity and catastrophe research.

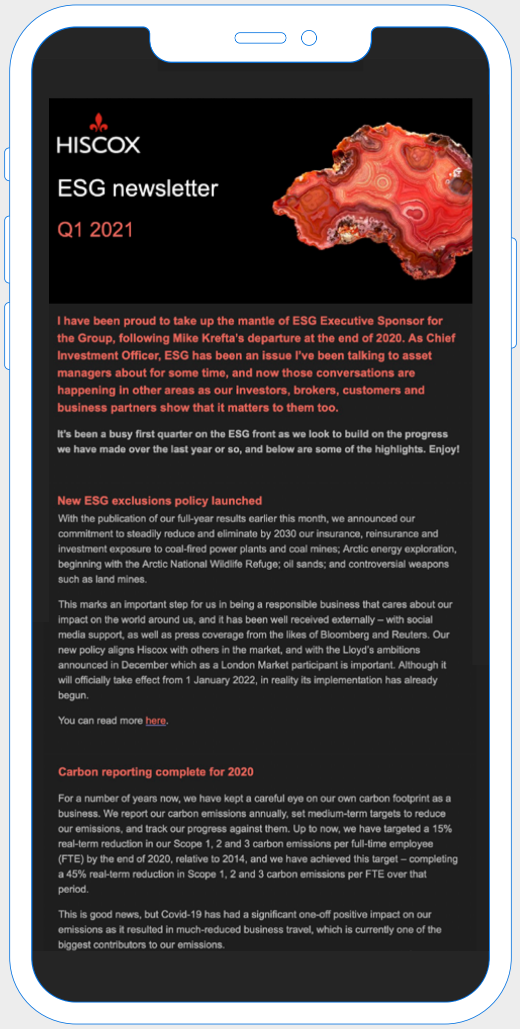
Please help us to tell our climate story by sharing the report with our business partners and suppliers, and through your LinkedIn and other social media accounts.

Our approach to climate change

Our customers, brokers, business partners and investors want to understand how we are thinking about and adapting to climate change. That's why we've produced a new climate change paper that articulates our position in one, go-to document. If you are asked about Hiscox's work around climate change, feel free to share this with your contacts.

Going green in lockdown

We want to hear your stories about any new green habits you've adopted during lockdown. Maybe you've been 'growing your own' or built a vegetable patch, or even decided to keep some chickens. You might have bought a bike, or reduced your food waste thanks to cooking more meals at home. Whatever changes you've made that have a positive environmental impact, we'd love to hear about them – please share your stories and photos with the Hiscox



HISCOX

ESG newsletter

Q1 2021

I have been proud to take up the mantle of ESG Executive Sponsor for the Group, following Mike Krefta's departure at the end of 2020. As Chief Investment Officer, ESG has been an issue I've been talking to asset managers about for some time, and now those conversations are happening in other areas as our investors, brokers, customers and business partners show that it matters to them too.

It's been a busy first quarter on the ESG front as we look to build on the progress we have made over the last year or so, and below are some of the highlights. Enjoy!

New ESG exclusions policy launched
With the publication of our full-year results earlier this month, we announced our 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.

This marks an important step for us in being a responsible business that cares about our impact on the world around us, and it has been well received externally – with social media support, as well as press coverage from the likes of Bloomberg and Reuters. Our new policy aligns Hiscox with others in the market, and with the Lloyd's ambitions announced in December which as a London Market participant is important. Although it will officially take effect from 1 January 2022, in reality its implementation has already begun.

You can read more here.

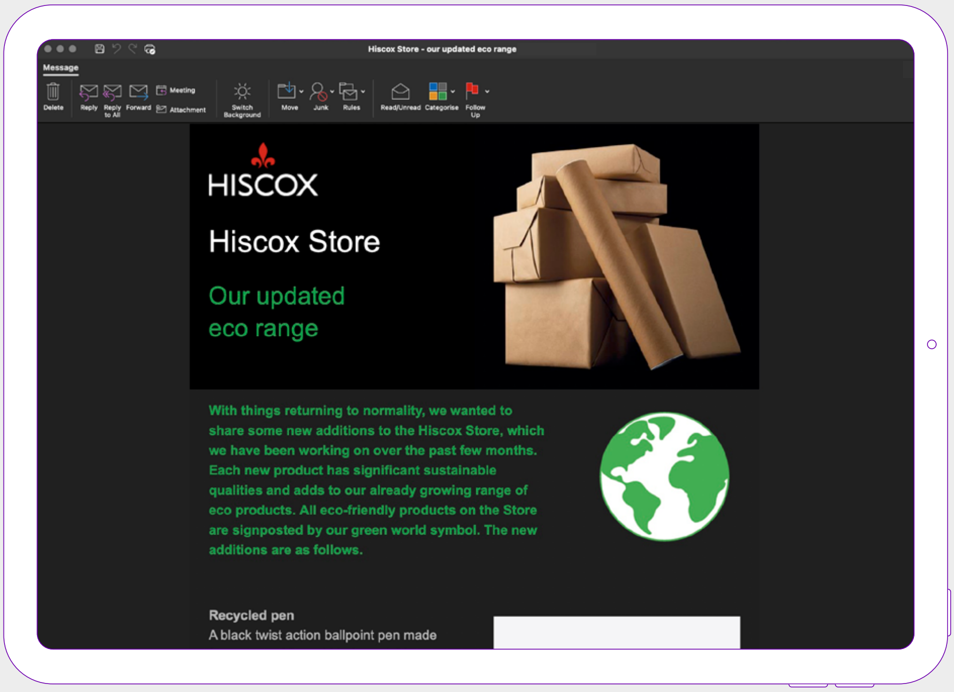
Carbon reporting complete for 2020

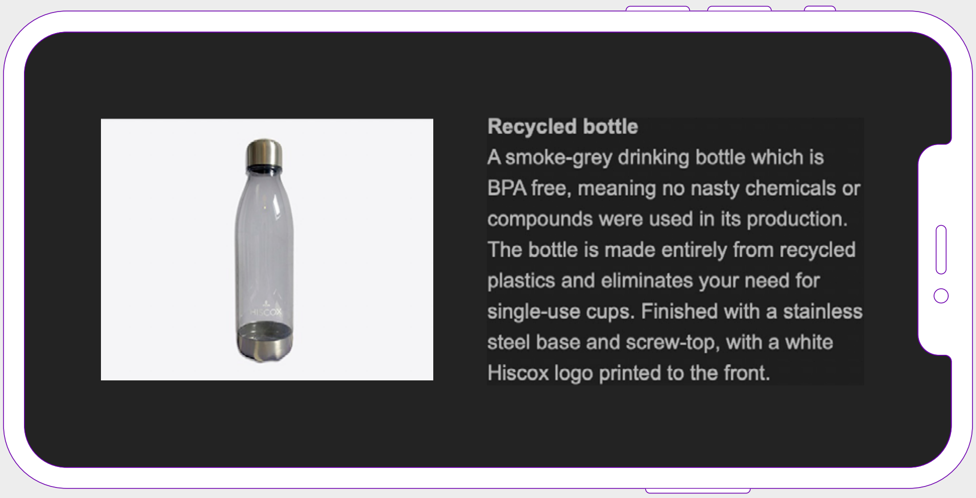
For a number of years now, we have kept a careful eye on our own carbon footprint as a business. We report our carbon emissions annually, set medium-term targets to reduce our emissions, and track our progress against them. Up to now, we have targeted a 15% real-term reduction in our Scope 1, 2 and 3 carbon emissions per full-time employee (FTE) by the end of 2020, relative to 2014, and we have achieved this target – completing a 45% real-term reduction in Scope 1, 2 and 3 carbon emissions per FTE over that period.

This is good news, but Covid-19 has had a significant one-off positive impact on our emissions as it resulted in much-reduced business travel, which is currently one of the biggest contributors to our emissions.

Helping our employees to make climate conscious choices

Through the Hiscox Store, our in-house shop featuring branded goods, we help our employees make climate conscious choices and over the last year have extended our range of eco products with recycled pens and recycled water bottles now available to purchase.





Our ambitions

Performance against our 2020-21 ambitions

Status	Ambition	Update
Achieved	To publish a special edition Covid-19 impact report, showcasing the work we have done to support some of the communities most affected by the crisis.	We published our special edition Covid-19 impact report in October 2020, a copy of which is available on our website.
Ongoing	To find new ways to share the Hiscox ESG strategy with all of our key stakeholders.	We have used new tools to communicate our ESG strategy during the year, which has included an ESG infographic for use with brokers and an ESG presentation for use with analysts and investors.
Ongoing	To develop and publish a set of climate change metrics by which we will hold ourselves to account, enabling us to assess and report on our progress publicly in a more consistent way.	We have made good progress on identifying potential metrics however we are now reviewing this to take into account, and reflect, our new ESG exclusions policy.

Our 2021-22 ambitions

- Complete additional engagement with our customers and brokers around our new ESG exclusions policy ahead of its official implementation from 1 January 2022.
- Develop and publish a set of climate-related metrics by which we will hold ourselves to account, enabling us to assess and report on our progress publicly in a more consistent way.
- Continue to offer Leakbot, the leak prevention tool, to our UK home insurance customers and identify similar, new opportunities.

Case study
Piloting new technologies to drive better spending decisions.

As with many aspects of ESG, when it comes to climate-related activity, education can be a powerful tool. That's why in 2020-21, we established a pilot scheme with Karma Wallet, an innovative start-up which reviews which companies are working towards social well-being and environmental responsibility based on ratings, reports and real data.

Karma Wallet evaluates brands and companies based on their environmental and social impact and grades them accordingly, so that this information can then be used by consumers to help them make more informed spending decisions and plan future purchases. It also provides users with tips and recommended swaps that can improve their personal impact over time.

Our employees are passionate about climate issues and so Karma Wallet worked with a group of our Hiscox USA employees to set up their personal profiles and assess their own personal social impact based on what they spend and where they spend. Each user was provided with their own impact assessment based on their personal spending patterns, and ways to improve it. This is an eye-opening process, so although the pilot was short it is driving tangible behaviour change among participants, and we will consider other similar pilots in other parts of the business in the future.

TCFD disclosure mapping

Reporting against the Financial Stability Board's Task Force on Climate-related Financial Disclosures will become mandatory in the UK from 2025, and the Financial Conduct Authority (FCA) requires TCFD disclosure for UK premium listed firms on a 'comply or explain' basis – effective from accounting periods beginning on or after 1 January 2021.

Governance

Theme	Recommended disclosure	Status	Reference
Disclose the organisation's governance around climate-related risks and opportunities.	Describe the organisation's governance around climate-related risks and opportunities.	Disclosed.	See pages, 9, 10 and 11. CDP climate questionnaire 2021.
	Describe management's role in assessing and managing climate-related risks and opportunities.	Disclosed.	See pages 14-15. CDP climate questionnaire 2021.

Strategy

Theme	Recommended disclosure	Status	Reference
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Disclosed.	See pages 5 and 22. CDP climate questionnaire 2021.
	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Disclosed	CDP climate questionnaire 2021.
	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Plan to disclose in the next two years.	See page 12 for latest information.

Risk management

Theme	Recommended disclosure	Status	Reference
Disclose how the organisation identifies, assesses, and manages climate-related risks.	Describe the organisation's processes for identifying and assessing climate-related risks.	Disclosed.	See pages 9, 11, 27-29. CDP climate questionnaire 2021.
	Describe the organisation's processes for managing climate-related risks.	Disclosed.	See pages 14-15. CDP climate questionnaire 2021.
	Describe how processes for identifying, assessing, and managing climated-related risks are integrated into the organisation's overall risk management.	Disclosed.	See page 9. CDP climate questionnaire 2021.

Metrics and targets

Theme	Recommended disclosure	Status	Reference
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Disclosed.	See pages 39-40. CDP climate questionnaire 2021. See Hiscox Group website.
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	Disclosed.	See pages 39-40. CDP climate questionnaire 2021. See Hiscox Group website.
	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Disclosed.	See pages 39-40. CDP climate questionnaire 2021.

Hiscox Ltd

Chesney House
96 Pitts Bay Road
Pembroke HM 08
Bermuda

+1 441 278 8300
enquiries@hiscox.com
hiscoxgroup.com

21581 08/21