



Hiscox Insurance Company Limited
Solvency and Financial Condition Report 2022



29 March 2023

Contents

Executive summary.....	3
Business and performance	3
System of governance	4
Risk profile	4
Valuation for solvency.....	6
Capital management	7
A. Business and performance.....	8
A.1. Business	8
A.2. Underwriting performance	11
A.3. Investment performance	13
A.4. Performance of other activities	14
A.5. Any other information	14
B. System of governance.....	15
B.1. General information on the system of governance	15
B.2. Fit and proper requirements	23
B.3. Risk management system including the ORSA	25
B.4. Internal control function.....	29
B.5. Internal Audit function	31
B.6. Actuarial function	32
B.7. Outsourcing.....	32
B.8. Any other information	33
C. Risk profile	34
C.1. Underwriting risk.....	35
C.2. Market risk	37
C.3. Credit risk	39
C.4. Liquidity risk.....	42
C.5. Operational risk	43
C.6. Other material risks	46
C.7. Any other information	50
D. Valuation for solvency purposes	52
D.1. Assets	52
D.2. Technical provisions	56
D.3. Other liabilities.....	62
D.4. Alternative methods of valuation.....	63
D.5. Any other information	64
E. Capital management.....	65
E.1. Own funds.....	65
E.2. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR).....	68
E.3. Use of the duration based equity risk sub-module in the calculation of the SCR	71
E.4. Differences between the standard formula and any internal model used.....	71
E.5. Non-compliance with the MCR and non-compliance with the SCR	71
E.6. Any other information	71
Appendix A: Directors' statement.....	72
Appendix B: Independent auditor's report to the Directors of Hiscox Insurance Company Limited	73
Appendix C: Glossary of Terms	77
Appendix D: QRTs	79

Executive summary

The purpose of the Solvency and Financial Condition Report (SFCR) is to provide stakeholders with additional information over and above that contained in the annual financial statements. This SFCR is prepared in accordance with the requirements of the PRA Rules and Solvency II regulations on which they are based. The annual financial statements of Hiscox Insurance Company Limited (HIC or the Company) are available from Companies House.

The SFCR contains qualitative and quantitative information on HIC's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management together with standardised Quantitative Reporting Templates (QRTs) for the year ended 31 December 2022.

All amounts in the SFCR, unless otherwise stated, are shown in Pounds Sterling rounded to the nearest thousand. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

COVID-19 has continued to impact HIC throughout 2022 as the Company processed claims in relation to Business Interruption (BI) insurance, coverage that replaces business income lost in a disaster, following the Supreme Court Judgment in January 2021. Furthermore, inflation and the subsequent volatility in interest rates have also emerged as significant considerations during 2022. These have been factored into a number of the significant financial reporting estimates and judgements and have been reflected in the relevant sections of HIC's annual financial statements. Estimates and their underlying assumptions are reviewed on an ongoing basis.

During 2022, the Company has commenced preparations for the upcoming FCA Consumer Duty rules. A dedicated project team is in place with accountable executives for each workstream to ensure the changes are delivered and embedded into business activities by the implementation date.

The Hiscox Group continues to take a strategic, holistic and long-term approach to managing risks associated with climate change which are considered as part of the Environmental, Social and Governance (ESG) Framework. HIC leverages and utilises this framework in order to manage its ESG risks. Several key developments during 2022 include those relating to sustainable underwriting, responsible investment, greenhouse gas (GHG) reduction targets and increased reporting.

Business and performance

HIC is a UK authorised insurer and a wholly owned subsidiary of Hiscox Insurance Holdings Limited. The ultimate parent company is Hiscox Ltd which is incorporated in Bermuda and has a FTSE 100 listing on the London Stock Exchange. HIC's principal activity is the transaction of insurance business, in particular personal and commercial insurance. Personal insurance includes high-value households, fine art and collectibles as well as luxury motor vehicles. Commercial insurance is focused on small and medium sized businesses, particularly for professional indemnity and other liabilities such as employers' liability, cyber risk and property risk.

As at 31 December 2022, the most material Solvency II lines of business were fire and other damage to property insurance (property insurance) and general liability insurance, accounting for 97.7% (2021: 97.1%) of gross premiums written.

In 2022, HIC's gross written premiums increased by 1.8% to £556,761 thousands (2021: £547,025 thousands).

HIC made an underwriting profit in 2022 of £16,124 thousands compared to £17,771 thousands underwriting profit in 2021 returning a combined ratio of 93.2% (2021: 92.5%). The net loss ratio experience was 32.7% for 2022 compared to 37.0% for the prior year.

HIC's investments generated a loss of £13,590 thousands in 2022 compared to a gain of £6,464 thousands in 2021, driven largely by the impact of the significant upward move in risk-free rates as central banks tried to tackle inflation, which reached and remains at the highest level in decades. The allocation to collective investment funds incurred a modest loss, but significantly outperformed broader equity markets.

The overall profit before tax for the year ended 31 December 2022 is £2,570 thousands compared to a £20,683 thousands profit in 2021.

The Board declared a £20,000 thousands interim dividend for the year ended 31 December 2022 which was paid in 2022 (2021: £nil). No final dividend has been declared for the year ended 31 December 2022 (2021: £nil).

Further details of HIC's business and performance during the reporting period are included in Section A of this report.

System of governance

HIC has an established, robust governance framework which underpins its business model. This goes beyond mere compliance with various applicable codes. It aims to have a strong culture, that reflects our stated values and purpose, and a balanced board with independent non-executives and a well-defined network of committees.

There is an established system of governance and oversight with clear segregation of duties and delegation of responsibilities to various committees reporting to the HIC Board of Directors ('HIC Board' or 'the Board'). Responsibility for each critical or important function has been assigned to a designated 'Senior Management Function' (SMF) under the PRA and FCA Senior Managers and Certification Regime (SMCR). These SMFs are either HIC Board members, report to the HIC Board or are senior Hiscox Group executives. The key functions of HIC are underwriting, claims, finance, operations, human resources, actuarial, IT, governance and controls, investments, risk management, compliance and internal audit.

The Board meets at least four times a year and is provided with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities, solvency and regulatory compliance.

HIC operates a three lines of defence model which establishes clear duties, roles and responsibilities in order to manage the full range of risks to which it is exposed. There are clear reporting lines to the Board within the organisation to ensure that information is appropriately communicated.

HIC's Own Risk and Solvency Assessment (ORSA) process is an integral part of the risk management system. The ORSA process covers business planning, assessing and monitoring the risk profile, validating outputs used to inform capital decisions and conducting solvency assessments. The ORSA process is evidenced during the course of the year as part of risk monitoring and reporting presented to the HIC Board and HIC Risk Committee. The ORSA report is approved annually by the HIC Board.

There were no material changes in HIC's system of governance during the reporting period. Further details of HIC's system of governance are included in Section B of this report.

Risk profile

HIC calculates its regulatory Solvency Capital Requirement (SCR) using the standard formula, which is based on five risk types: insurance risk; market risk; credit risk; liquidity risk and operational risk. Material risk exposures are mitigated through the operation of controls to reduce the likelihood or impact of risks occurring; the holding of capital; and through the purchase of reinsurance to limit HIC's exposure to losses.

A snapshot of HIC's pre-diversified risk profile composition for the year ended 31 December 2022 and comparison with prior year is shown in Figure 1. The risk profile is produced using the Solvency II standard formula framework.

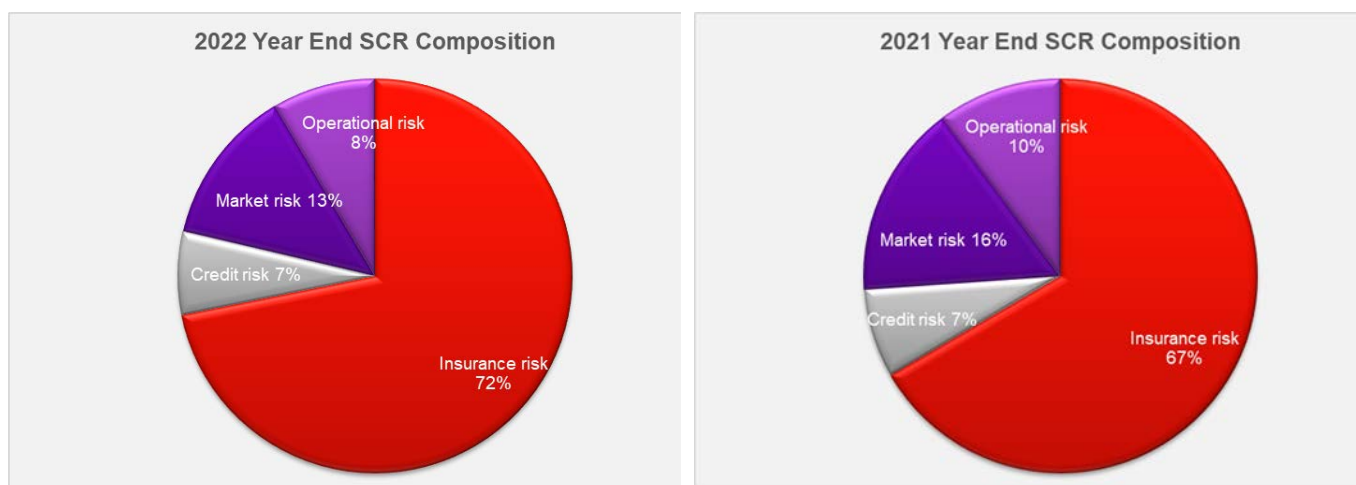


Figure 1

Insurance risk remains the most significant risk that HIC is exposed to, representing 72% of its pre-diversified risk profile, compared to 67% in 2021. The increase in HIC's insurance risk requirement is primarily driven by an increase in catastrophe risk due to changes in its reinsurance programme.

The second and third largest risk types in 2022 are **market risk** and **operational risk** accounting respectively for 13% and 8% of the pre-diversified risk profile.

The pre-diversified SCR for **market risk** has decreased from 16% in 2021 to 13% in 2022. Here, the reduction in equity risk from holding less Collective Investment Undertakings more than offsets the increased interest rate risk resulting from the strengthening of yield curves over the year.

Operational risk has fallen marginally from 10% in 2021 to 8% in 2022 as a direct result of the decrease in gross technical provisions over the year.

The fourth largest risk type is **credit risk**, which has remained the same in percentage terms at 7% in 2021 and 2022.

Liquidity risk is immaterial in relation to the pre-diversified risk profile.

All risk types are actively managed as part of the risk management framework.

Although there are links between underwriting, market and credit risk, it is highly unlikely that the most extreme losses in each category will be incurred at the same time. To recognise this, HIC's SCR is less than the sum of the individual capital requirements for each risk type, reflecting the beneficial impact of this diversification. Further details of HIC's risk profile, including analysis of HIC's diversified capital standard formula SCR are included in Section C of this report.

Valuation for solvency

Assets and liabilities have been valued for solvency purposes in accordance with the Solvency II Directive (as implemented in the UK in the PRA Rulebook for Solvency II Firms) and the Solvency II Regulations.

Table 1 shows the differences between HIC's shareholders' equity (as presented in the financial statements prepared under IFRS) and the Solvency II excess of assets over liabilities (EAL), as presented in the Solvency II balance sheet shown in Appendix D of this report.

Differences between HIC's shareholders' equity and the Solvency II excess of assets over liabilities (£000)		
	2022	2021
Shareholders' equity as shown in the financial statements	183,273	202,620
Solvency II valuation adjustments to assets (Note i)	(310,692)	(283,594)
Solvency II valuation adjustments to technical provisions (Note ii)	210,754	189,362
Solvency II valuation adjustments to other liabilities (Note iii)	132,787	129,157
Solvency II EAL	216,122	237,545

Table 1

The differences between shareholders' equity and Solvency II EAL are due to valuation adjustments as explained below:

i. Valuation of assets under Solvency II

Valuation adjustments to assets relate primarily to adjustments to remove deferred acquisition costs and insurance and reinsurance receivables not yet due as these are taken into account in the valuation of technical provisions under Solvency II. Consideration has been made to whether a valuation adjustment for investments is required under the Solvency II Prudent Person Principle and we have determined no adjustments are necessary as they are valued on a market basis.

ii. Valuation of technical provisions under Solvency II

Adjustments have been made to statutory technical provisions and reinsurance recoverables (consistent with the adjustments to valuation of assets) to reflect Solvency II valuation requirements. Solvency II requires the technical provisions ("claims provisions" plus "premium provisions") to be a best estimate of the current liabilities relating to insurance contracts, plus a risk margin. The best estimate liabilities are calculated as the discounted best estimate of all future cash flows relating to claim events prior to the valuation date, as well as the discounted best estimate of all future cash flows relating to future exposure arising from policies that the insurer is obligated to at the valuation date.

iii. Valuation of other liabilities

Valuation adjustments to other liabilities relate primarily to adjustments to remove deferred acquisition costs payable in the financial statements (relating to reinsurance ceded) and insurance and reinsurance payables not yet due as these are taken into account in the valuation of reinsurance recoverables under Solvency II. HIC has no material contingent liabilities that require recognition as liabilities in the Solvency II balance sheet.

Further details of HIC's valuation of assets and liabilities for solvency purposes are included in Section D of this report.

Capital management

The solvency position of an insurer under Solvency II is determined by comparing eligible own funds with the Solvency Capital Requirement (SCR). Insurers are required to meet the SCR at all times and are required to rectify any breach within six months (this period can be extended by a further three months). A breach of the lower Minimum Capital Requirement (MCR) is required to be rectified within three months.

As at 31 December 2022, HIC's Solvency II own funds were £216,122 thousands, compared to a Solvency II Standard formula SCR of £164,642 thousands, representing an SCR coverage ratio of 131%. HIC's MCR as at 31 December 2022 was £41,160 thousands. The SCR coverage ratio has fallen in comparison to prior year largely as a result of the payment of a £20,000 thousands interim dividend for the year ended 31 December 2022 combined with an increase in the SCR. The latter is primarily driven by an increase in catastrophe risk due to changes in its reinsurance programme from 1 January 2023 which raises the insurance risk requirement.

Calculation of HIC's eligible own funds (£000)

	2022	2021
Solvency II EAL	216,122	237,545
Foreseeable dividend	-	-
Restrictions on eligibility	-	-
Eligible own funds (all Tier 1)	216,122	237,545
Minimum Capital Requirement	41,160	38,870
Solvency Capital Requirement	164,642	155,481
Solvency Capital Requirement coverage ratio	131%	153%

Table 2

There are no restrictions on the availability or transferability of HIC's own funds (e.g. no existence of ring-fenced funds). As all eligible own funds are unrestricted Tier 1 items (i.e. ordinary share capital, related share premium and reconciliation reserve), there are no eligibility restrictions and therefore all available own funds are eligible to cover the SCR and MCR.

HIC has not requested, and does not have in place, approvals to use the matching adjustment, volatility adjustment, transitional interest rate term structure or the transitional deduction on technical provisions. Therefore, no adjustments have been made relating to these transitional measures.

The appropriateness of the Solvency II Standard Formula has been assessed with respect to HIC's risk profile and is deemed appropriate for its use in calculating HIC's regulatory capital.

Decisions on optimal capital levels are an integral part of HIC's business planning and forward-looking assessment of risk processes which cover a three-year time horizon. HIC manages its own funds in such a way that it will ensure it holds sufficient capital to meet its regulatory and business requirements.

There were no material changes to HIC's capital management approach during the reporting period and there were no instances of non-compliance with the SCR or MCR. The Board declared a £20,000 thousands interim dividend for the year ended 31 December 2022 which was paid during 2022. Further details of HIC's capital management approach are included in Section E of this report.

A. Business and performance

A.1. Business

A.1.1. Name and legal form of the undertaking

Hiscox Insurance Company Limited (HIC) is a private company limited by shares.

The registered office of HIC is 22 Bishopsgate, London EC2N 4BQ.

A.1.2. Supervisory authority responsible for the financial supervision of HIC

HIC is supervised by both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Their respective contact details are set out below:

Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

Hiscox Ltd (ultimate parent company of HIC) is supervised by the Bermuda Monetary Authority. Its contact details are set out below:

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton
HM12

A.1.3. External auditor

The external auditor of HIC is PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

A.1.4. Holders of qualifying holdings in HIC

Details of the legal or natural persons that are direct and indirect holders of qualifying holdings in HIC during the reporting period and as at the year end and subsequently are as follows:

- a) Hiscox Insurance Holdings Limited, a limited company incorporated in the UK, owned 100% of the ordinary share capital of HIC and was able to exercise 100% of the voting rights at any general meeting;
- b) Hiscox plc, a public limited company incorporated in the UK, owned 100% of the ordinary share capital of Hiscox Insurance Holdings Limited and was able to exercise 100% of the voting rights at any general meeting;
- c) Hiscox Ltd, a company incorporated in Bermuda and listed on the London Stock Exchange, owned 100% of the ordinary share capital of Hiscox plc and was able to exercise 100% of the voting rights at any general meeting.

A.1.5. Details of HIC's position within the legal structure of the group and related undertakings

The simplified group structure in Figure 2 shows HIC's position within the legal structure of Hiscox Ltd and its group of companies ('Hiscox Group' or 'the Group').

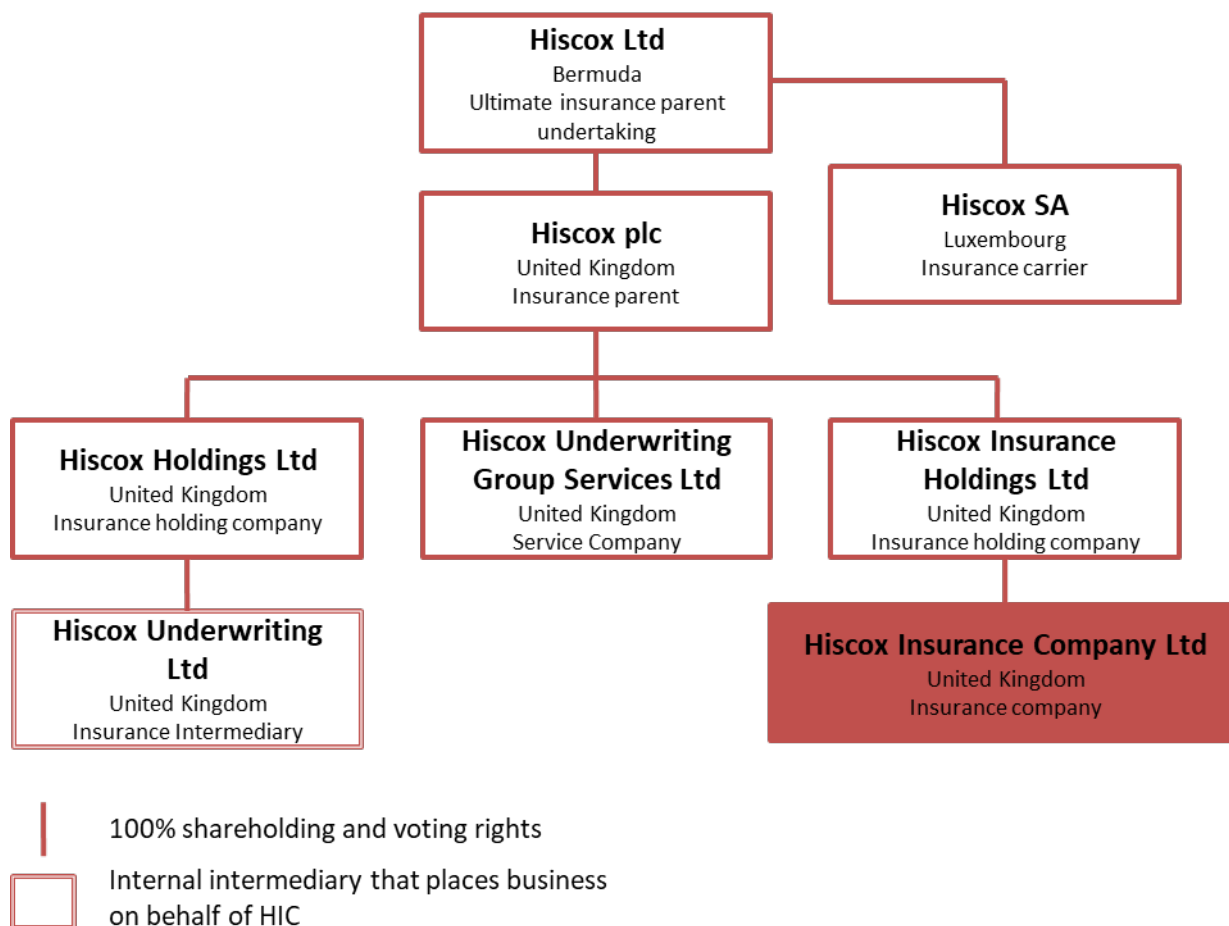


Figure 2

The detail of ownership of HIC is shown in Section A.1.4 above.

HIC relies on a range of internal outsourcing partners for provision of a variety of services as outlined below:

- Hiscox Underwriting Group Services Limited (HUGS)
Employer of all UK-based staff within Hiscox Group. HUGS will second staff to other legal entities within the Group when required.
- Hiscox Underwriting Limited (HUL)
HUL is an internal intermediary that places business on behalf of HIC through delegated authority. For the year ended 31 December 2022, 100% of HIC's business (gross premiums written) was written through HUL.

A.1.6. Material lines of business and material geographic areas where business is carried out

The material Solvency II lines of business which HIC underwrites and their relative contribution to HIC's gross premiums written are as shown in Table 3.

Material SII lines of business as a contribution of Gross Written Premium (%)		
	2022	2021
Fire and other damage to property insurance	39.7	39.2
General liability insurance	58.0	57.9
Others	2.3	2.9
Total	100.0	100.0

Table 3

Material geographic areas

As at 31 December 2022, the only location where HIC conducts business is the UK (2021: the UK).

A.1.7. Significant business or other events during the period that have had a material impact on HIC

Over 98% of the BI claims arising from COVID-19 are now settled, along with payments for Interest, Distress and Inconvenience, and reinsurance recoveries have been received or agreed. We continue to monitor a number of BI related court cases, none of which involve Hiscox, but may result in changes in our assumptions in respect of claims settlement.

Furthermore, inflation has also emerged as a significant factor during 2022. We have undertaken a specific review of inflation both on existing loss reserves and go-forward pricing which was peer reviewed by external actuaries.

HIC has continued to monitor its capital and liquidity closely and maintained these within risk appetite at all times.

A.2. Underwriting performance

HIC's underwriting performance for the year ended 31 December 2022 is set out in Table 4.

Key performance indicators	2022	2021
Gross premiums written (£000)	556,761	547,025
Net premiums written (£000)	237,552	234,527
Net premiums earned (£000)	237,210	236,347
Underwriting profit (£000)	16,124	17,771
Gross claims ratio (%)	18.7	41.9
Net claims ratio (%)	32.7	37.0
Operational expenses ratio (%) [Net]	60.5	55.5
Net combined ratio (%) [excluding FX]	93.2	92.5

Table 4

A.2.1. Analysis of underwriting performance by material Solvency II lines of business

HIC's underwriting performance by material Solvency II lines of business for the years ended 31 December 2022 and 31 December 2021 is set out in Tables 5a and 5b.

2022 Key performance indicators ¹				
	Fire and other damage to property	General liability	Other ²	Total 2022
Gross premiums written (£000)	221,063	323,011	12,687	556,761
Net premiums written (£000)	150,039	76,063	11,450	237,552
Net premiums earned (£000)	150,216	74,868	12,126	237,210
Gross claims incurred (£000)	6,372	92,108	5,307	103,787
Net claims incurred (£000)	58,045	14,711	4,850	77,606
Net expenses incurred (£000)	90,683	45,636	7,161	143,480
Underwriting profit (£000)	1,488	14,521	115	16,124
Gross claims ratio (%)	2.9	28.5	39.2	18.7
Net claims ratio (%)	38.6	19.6	40.0	32.7
Operational expense ratio (%) [Net]	60.4	61.0	59.1	60.5
Net Combined ratio (%) [excl. FX]	99.0	80.6	99.1	93.2

Table 5a

2021 Key performance indicators ¹				
	Fire and other damage to property	General liability	Other ²	Total 2021
Gross premiums written (£000)	214,333	316,818	15,874	547,025
Net premiums written (£000)	148,583	70,508	15,436	234,527
Net premiums earned (£000)	149,965	68,094	18,288	236,347
Gross claims incurred (£000)	115,235	101,337	9,989	226,561
Net claims incurred (£000)	56,593	24,751	6,045	87,389
Net expenses incurred (£000)	84,397	36,773	10,017	131,187
Underwriting profit (£000)	8,975	6,570	2,226	17,771
Gross claims ratio (%)	53.5	33.0	52.8	41.9
Net claims ratio (%)	37.7	36.3	33.1	37.0
Operational expense ratio (%) [Net]	56.3	54.0	54.8	55.5
Net Combined ratio (%) [excl. FX]	94.0	90.3	87.9	92.5

Table 5b

In 2022, HIC's gross premiums written increased marginally by 1.8% to £556,761 thousands (2021: £547,025 thousands).

HIC made an underwriting profit in 2022 of £16,124 thousands compared to an underwriting profit of £17,771 thousands in 2021, returning a combined ratio of 93.2% (2021: 92.5%).

The net claims ratio experience for 2022 was 32.7% in comparison with the prior year at 37.0%.

However, there were variances by line of business, with Fire and Other Damage to Property seeing a 0.9 percentage point worsening in the ratio against a 16.7 percentage point improvement on General Liability and a 6.9 percentage point worsening on Other (the make-up of which is exclusively motor business).

The worsening in Fire and Other Damage to Property was largely driven by Storms Dudley, Eunice and Franklin, combined with subsidence and Escape Of Water (EOW) claims arising from the low temperatures in December, which were to some extent offset by some positive movements in respect of BI claims.

General Liability benefitted from continued low claims frequencies which, despite increasing, still remain below pre-COVID-19 levels.

A.2.2. Analysis of underwriting performance by geographic area where HIC conducts business

All of HIC's business is conducted in the UK (2021: 100% in the UK).

A.3. Investment performance

A.3.1. Income and expenses arising from investments by asset class

The composition of HIC's investment portfolio as at 31 December 2022 is as shown in Table 6.

Composition of Investment Portfolio by asset class (%)		
	2022	2021
Debt and fixed income securities		
- Government bonds	13.6	10.5
- Corporate bonds	65.3	69.5
Collective investment undertakings	12.1	12.2
Cash and cash equivalents	9.0	7.8
Total	100.0	100.0

Table 6

As the yield on Government debt rose during the period, these securities presented a more attractive investment opportunity and the portfolio saw a modest shift from investment grade corporate bonds into government issued securities.

The investment income and expenses by asset class as disclosed in the financial statements for the year ended 31 December 2022 are shown in Table 7.

Asset Class						
	31 December 2022				31 December 2021	
	Investment income (including realised and unrealised gains)	Investment expense	Net investment return		Net investment return	
	£000	£000	£000	%	£000	%
Debt and fixed income securities						
- Government bonds	32	(63)	(31)	(0.1)	(195)	(0.5)
- Corporate bonds	(13,167)	(303)	(13,470)	(4.9)	(1,724)	(0.5)
Collective investment undertakings	(1,365)	-	(1,365)	(2.9)	8,271	16.5
Derivatives	828	-	828	-	105	-
Cash and cash equivalents	448	-	448	1.1	7	-
Total	(13,224)	(366)	(13,590)	(3.5)	6,464	1.3

Table 7

Debt and fixed income securities: The GBP portfolio returned -4.4% versus the composite government and credit benchmark which returned -4.8%

Collective investment undertakings: For the year the risk assets returned -2.9% versus the benchmark which returned -12.4%. The risk asset benchmark is a combination of equity index and hedge fund indices.

Cash and cash equivalents: With interest rate increasing, cash returns are much improved.

A.3.2. Gains and losses recognised directly in equity

There were no investment gains and losses recognised directly in equity during the period. All investment gains and losses were recognised in the profit and loss account.

A.3.3. Information about any investments in securitisations

There are no investments in securitisations as at 31 December 2022. (2021: no investments in securitisations).

A.4. Performance of other activities

A.4.1. Other material income and expenses incurred over the reporting period

Details of HIC's underwriting and investment performance are included in Sections A.2 and A.3 above. HIC did not have any other material income and expenses in the reporting period other than corporation taxation expenses.

A.4.2. Leasing arrangements

During the year, HIC disposed its right-of-use assets and accordingly the valuations of these assets and corresponding liabilities are £nil. For the year ended 31 December 2021, the right-of-use assets were disclosed separately in the financial statements for the year ended 31 December 2021 for the amount of £591 thousands with corresponding lease liabilities of £614 thousands.

A.5. Any other information

All material information relating to HIC's business and performance has been disclosed in Sections A.1 to A.4 above.

B. System of governance

B.1. General information on the system of governance

As with every part of the Hiscox Group, HIC seeks to apply clear and appropriate standards of corporate governance.

The HIC Board is ultimately responsible for the oversight of HIC’s performance and risk management. There is an established system of governance with defined segregation of duties and delegation of responsibilities to various committees and meetings reporting to the Board. The reporting relationship between the Board and functional areas are detailed in Section B.1.1 of this report. The sub-committees that act on behalf of HIC’s Board are identified in Figure 3.

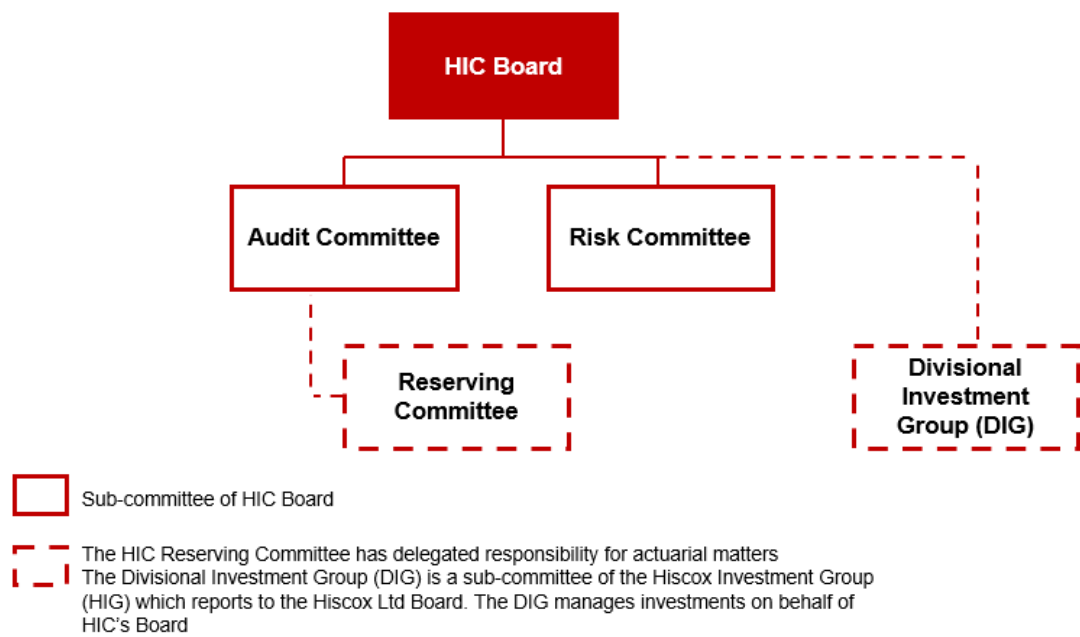


Figure 3

The governance of all risk types is covered by a Group-wide risk management framework. HIC has adopted the three lines of defence model for the governance and application of its risk management framework, as summarised in Table 8 below.

1. First line of defence	2. Second line of defence	3. Third line of defence
Owns risk and controls	Assesses, challenges and advises on risk objectively	Provides independent assurance of risk control
The first line of defence is responsible for ownership and management of risks on a day-to-day basis, and consists of everyone at every level in the organisation, as all have responsibility for risk management at an operational level.	The second line of defence provides independent oversight, challenge and support to the first line of defence. The second line of defence consists of the Group Risk team and the Compliance team.	The third line of defence is made up of the Internal Audit function, which provides independent assurance to the Board that risk is being managed in line with approved policies, appetite, frameworks and processes. It also helps verify that the system of internal control is effective.

Table 8

B.1.1. Boards and committees

HIC is governed by its Board of Directors. The Board is responsible for the leadership, control and the success of the Company.

The composition of the Board is as follows:

- a) Three Executive Directors:
 - HIC Chief Executive Officer (CEO). (The HIC CEO is also the CEO of the Group's UK business unit);
 - HIC Chief Underwriting Officer (CUO); and
 - HIC Chief Financial Officer (CFO).
- b) Four independent Non-Executive Directors (NEDs), of which one is the Chair of HIC.
- c) One Hiscox Group NED, the Group Chief Underwriting Officer (CUO).

The Board meets at least four times a year and operates within established Terms of Reference and the HIC Governance Manual. It is provided with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities, solvency and regulatory compliance.

The Board retains ultimate responsibility for all aspects of the operation of HIC. A number of matters are reserved specifically for decision by the Board. Other matters are delegated to HIC Senior Managers (SMFs), the HIC certification population and HIC Board committees which are further detailed below. The composition of the Board, including other attendees and SMFs, is illustrated in Figure 4.

HIC Board and Senior Management Structure

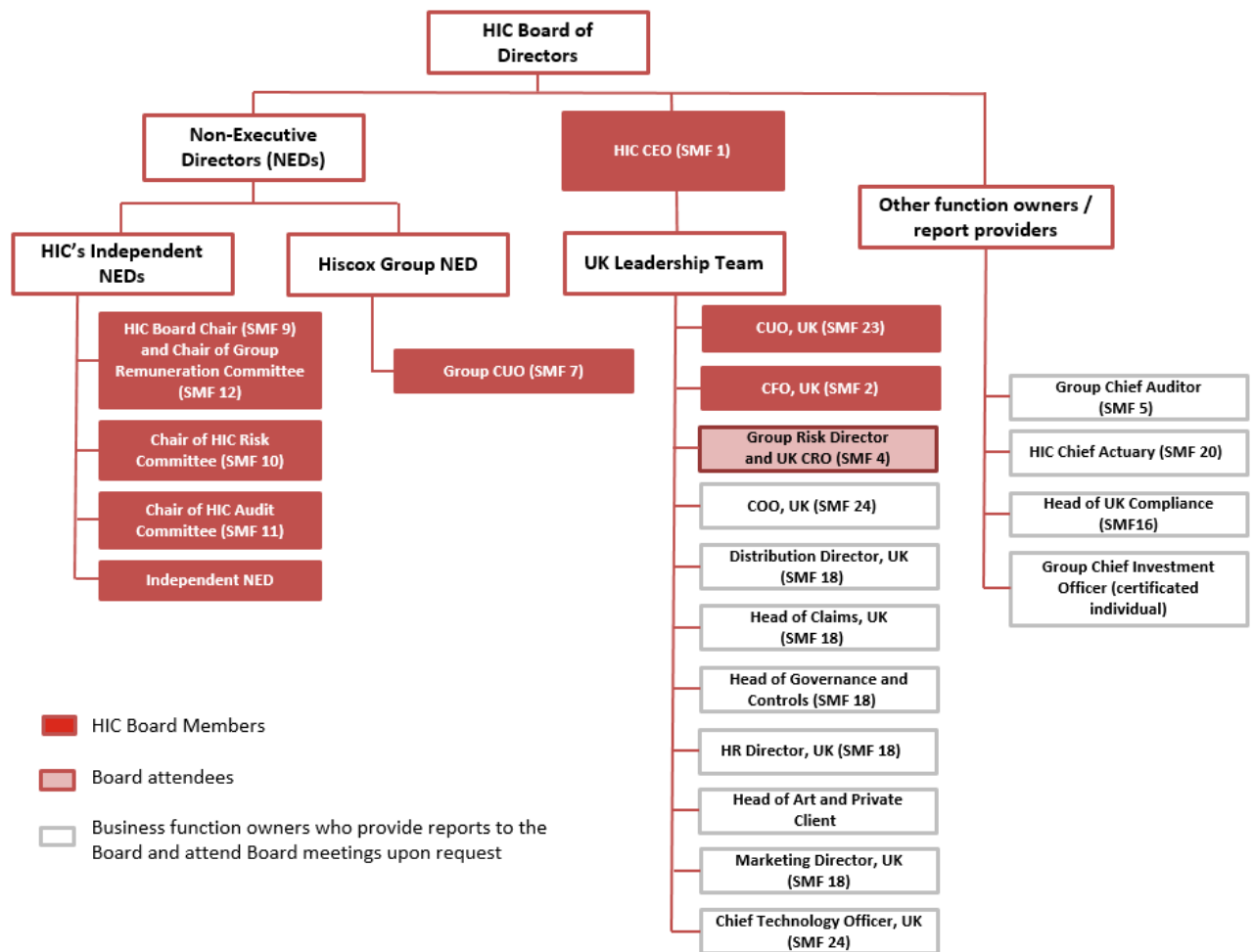


Figure 4

Business unit structure

The Hiscox Group of companies operates primarily through the use of business units which are largely structured around specific geographies or distinct business activities to best serve customers. These business units each have their own governance structures and each can utilise the capacity provided by various Group insurance companies. In 2022, the UK business unit was the only business unit to utilise HIC capacity.

HIC key business activities

The key business activities identified by HIC under the PRA's Senior Managers and Certification Regime (SMCR) as being crucial to the success of the Company are set out in Table 9. The HIC SMFs have responsibility for these business activities.

Key Business Activity	SMF responsible - role	SMF responsibilities	Reporting line
Underwriting	SMF23 - HIC CUO	The HIC CUO is responsible for managing underwriting strategy, including pricing and reinsurance purchasing, exposure monitoring and management, and ensuring risks are managed appropriately through underwriting controls for their respective business units.	HIC CEO
Finance	SMF 2 - HIC CFO	The HIC CFO is responsible for the production and integrity of HIC's financial information and its regulatory reporting, as well as overall financial control of HIC. This also includes responsibility for the activity of the Group treasury team where it acts on behalf of HIC.	HIC CEO
Operations	SMF 24 - HIC COO	The HIC COO is responsible for ensuring the effective and efficient operation of the business including ensuring appropriate systems are in place to meet the current and future needs of the business, such as information security and change projects, and that business continuity plans are sufficient.	HIC CEO
Risk management*	SMF 4 - Group Risk Director/HIC CRO	The risk management function is responsible for creating and implementing the risk management framework and for reporting to the Risk Committee and ultimately the Board on risks that have been identified as potentially material.	Group CRO
Compliance*	SMF 16 - Head of UK Compliance	The Compliance function is responsible for regulator communication; regulatory policy and advisory; compliance monitoring; and second line regulatory reporting oversight.	Group Chief Compliance Officer
Internal audit*	SMF 5 - Group Chief Auditor	The Internal Audit function is responsible for maintaining an audit plan setting out the audit work to be undertaken in the upcoming years and reporting to the Audit Committee on audits undertaken during the year.	Chair of the Group Audit Committee
Actuarial*	SMF 20 - HIC Chief Actuary	The actuarial function is responsible for the calculation of HIC's technical provisions as well as providing an independent report on underwriting and reinsurance activities.	Group Chief Actuary
Claims	SMF18 - UK Head of Claims	The claims function is responsible for setting initial reserves for notified claims and processing these claims from initial notification through to closure of the claim.	HIC CEO

Key Business Activity	SMF responsible - role	SMF responsibilities	Reporting line
Investments	SMF 7 - Group Chief Finance Officer (delegates responsibilities to Chief Investment Officer who is a certificated individual)	The investment function is responsible for recommending investment strategy to the Board. The function is responsible for implementing that strategy within the risk appetite set by the Board and subject to the prudent person principle, as well as monitoring and reporting on performance.	Group CFO
Human resources	SMF 18 - HR Director, UK	The HR function is responsible for the formulation, implementation and performance of HIC's talent strategies covering acquisition, people development, reward, engagement and performance management.	Group Chief HR Officer
Marketing	SMF 18	The marketing function is responsible for the production and distribution of marketing materials and communications relevant to HIC.	HIC CEO
IT	SMF 24 - UK Chief Information Officer	The IT function is responsible for ensuring the security, reliability and integrity of IT operations in HIC.	HIC CEO
Governance and Controls	SMF 18 - Head of Governance and Controls, UK	The Governance and Controls function supports the delivery of good customer outcomes through implementation of appropriate Quality Assurance, Governance, Controls, Conduct management and a Complaints Resolution Framework.	HIC CEO

Table 9

**Risk Management, Compliance, Internal Audit and Actuarial functions are Solvency II required key functions.*

HIC Board, Committees and Meetings

The HIC Board is collectively responsible for the long-term success of the Company and its performance.

As shown in Figure 4 above, there are two sub-committees that report to the HIC Board - the Audit Committee and the Risk Committee. These are further supported by the Reserving Committee and the Divisional Investment Group (DIG).

The HIC Audit Committee and the HIC Risk Committee are each chaired by a HIC independent NED. The HIC Reserving Committee is chaired by the CFO of Hiscox Ltd. The chair of the DIG is appointed by the Hiscox Investment Group.

HIC Audit Committee

The HIC Audit Committee provides oversight and challenge of:

- the statutory audit process and annual financial statements;
- the performance of the Internal Audit function (on matters relating to HIC);
- the effectiveness of internal controls;
- HIC's reserving recommendations and its reserve position; and
- HIC's financial returns and reports to the PRA, the FCA and any other relevant regulator.

HIC Reserving Committee

The HIC Reserving Committee has delegated responsibility to:

- review the appropriate level of reserves to be held in HIC, in consideration of the relevant reserving analysis and ranges as produced by the reserving team and any management loadings applied;
- recommend the level of IFRS and Solvency II technical provisions to be held;
- review and approve updates to the reserve risk distribution; and
- oversee, monitor, manage and mitigate HIC's reserving risk profile.

HIC Risk Committee

The HIC Risk Committee provides oversight of risk management activities to the HIC Board. HIC's Risk Committee has the following key responsibilities:

- recommending to the Board proposals for consideration in respect of the risk management framework, the risk appetite framework and risk governance;
- regularly reviewing changes to the risk profile and broader risk environment via risk reporting and determining whether any action or response is required.;
- providing input into the schedule of specific risk reviews on areas of interest across the business.;
- reviewing and challenging the ORSA report at least annually and recommending it to the Board for approval;
- reviewing the results of stress and scenario testing and reverse stress testing and considering any actions arising;
- reviewing breaches of risk appetite, limits and tolerances including escalation to the Board.
- reviewing relevant operational risk events and considering any actions arising from these;
- ensuring the appropriateness of the risks and their associated internal controls including a review of Risk and Control Self-Assessment (RCSA) results;
- reviewing whether risk reporting is appropriate and effective to enable an appropriate risk culture to be embedded throughout the organisation; and
- reviewing Compliance issues and Regulatory Compliance monitoring on behalf of the Board.

Divisional Investment Group (DIG)

On behalf of Hiscox Investment Group and each carrier Board within the Hiscox Group (including HIC), the DIG is responsible for:

- monitoring the performance, asset disposition, expected return and risk profile of the investments of each carrier in accordance with the investment policy and procedures;
- monitoring and challenging the day-to-day investment activities undertaken on behalf of each carrier by the Group Chief Investment Officer and third party managers within the parameters set by the Hiscox Investment Committee and the investment policy and procedures; and
- monitoring the investment and asset/liability management risk profile of each carrier.

B.1.2. Material changes in the system of governance over the reporting period

There have been no material changes in HIC's system of governance over the reporting period. Henry Keeling resigned as non-executive director on 17 May 2022 and Jonathan Dye was appointed as director and CEO on 1 September 2022. Prior to the appointment of Jonathan Dye, Stéphane Flaquet was CEO on an interim basis.

B.1.3. Remuneration policy and practices

Hiscox Ltd and all internal outsourcing partners have a single remuneration policy which is applicable to all legal entities and therefore applies to all members of staff supplying services to HIC including its key function holders. HIC delegates its remuneration responsibilities to the Hiscox Ltd Group Remuneration Committee; discussions are held with the HIC NEDs at least annually regarding specific remuneration pertaining to HIC and when necessary additional sessions are held to review changes to policy or any remuneration related risk assessments. The key principles of this policy are set out below.

Principles of remuneration policy

Hiscox Group's core business, including HIC's, is to accept risk on behalf of customers and our ongoing success depends on how well these risk exposures are understood and managed. It is therefore crucial that knowledge of those risks underpins every important decision made.

The primary objective of the Hiscox Group is to deliver strong shareholder returns across the insurance cycle and consistently grow dividends and net asset value per share whilst protecting the policyholder. The aim is to achieve this by building a diversified business which gives flexibility throughout the cycle. When setting business unit targets we seek to motivate strong performance but in a manner which encourages sustainable behaviours in line with the defined risk appetite of individual entities including HIC. The variable pay elements for staff supplying services to HIC are structured with these strategic objectives in mind.

Return on Equity (ROE) is a key measure of the Hiscox UK business unit performance and is used in the annual bonus plan. Business underwritten by HIC forms a significant part of the UK business unit. The use of ROE ensures profitability measures also take into account the capital base utilised in the generation of profits.

For long-term share awards we use a combination of relative and absolute financial performance measures assessed over a three-year period. Growth in Net Asset Value (NAV) per share plus dividends accounts for 60% of the financial performance element and relative Total Shareholder Return (TSR) the other 40%. These metrics complement the ROE measure used for the short-term incentive and add further diversity to the overall performance assessment.

The structure of the incentive arrangements and the targets set and assessed are intended to be inherently risk-adjusted taking into account exposure to current and future risk.

Specific features of the remuneration structure

The following features of the remuneration strategy contribute to ensuring remuneration of staff supplying services to HIC is aligned with HIC's business strategy, risk profile, objectives, risk management practices and long-term interests:

- a) Fixed pay - represents a sufficient proportion of the remuneration package so no individual is dependent on variable pay. This enables HIC's internal service providers to operate a fully flexible variable pay policy and where performance does not justify the payment of bonus or long-term share award, the variable components of the remuneration package will not be made or may lapse;
- b) Performance metrics and targets - the approach to bonus and long-term incentives is linked to strategic priorities. The qualitative assessment of individual performance considers an individual's adherence to the risk management system and compliance requirements;
- c) Time horizons - a portion of annual bonuses may be deferred and senior leaders take part in a long term incentive share plan which normally vests after three years. Share awards to Hiscox Group's Executive Directors also have an additional two-year holding period on vested shares;
- d) Shareholding guidelines - applicable to Hiscox Partners and equivalent to 100% of salary ('Hiscox Partner' is an honorary title given to employees who make significant contributions to the development and profitability of the Group). Hiscox Group Executive Directors have a 200% salary shareholding requirement. The shareholding guidelines provide long-term focus and alignment with shareholders' interests;
- e) Malus and clawback - these are safeguard mechanisms to avoid payments for failure;
- f) Unvested compensation may be reduced, cancelled or have further conditions imposed in the following circumstances:
 - a retrospective material restatement of the audited financial results of the Group for a prior period error in accordance with IAS 8;

- an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted, or vests;
- actions of gross misconduct or material error, including fraud by an individual or their team; and
- significant reputational or financial damage to the Company as a result of an individual's conduct.

Share awards are also subject to clawback for up to two years from the date of vesting. In the circumstances described above, the Remuneration Committee may require an individual to repay some or all of their vested awards; and

- g) The Group Remuneration Committee has discretion to decide whether and to what extent the performance condition or any other condition to which an award is subject has been met. The Committee may adjust the extent to which an award vests to ensure that the outcome reflects the performance of the Company and participant over the performance period.

Individual and collective performance criteria on which any entitlement to share options, shares or variable components of remuneration is based

Variable compensation across Hiscox has two components: i) annual incentives which comprise a personal performance bonus and a profit bonus component, and ii) a long-term incentive scheme, the Performance Share Plan (PSP).

Annual incentive - personal performance bonus

Awards under this scheme are based on individual performance ratings which measure the achievement of set objectives and the behaviours demonstrated. Individuals must normally achieve a "successful" Performance and Development Review (PDR) rating at year-end in order to qualify for a bonus. Where PDR ratings are below this level, awards may be scaled back.

Annual incentive - profit bonus

Individual allocations under this scheme are discretionary. As above, individuals must normally achieve a "successful" PDR rating at year-end in order to qualify for a bonus. Where PDR ratings are below this level, awards may be scaled back.

Bonus pools under this scheme are determined based on financial performance. Therefore, this is the main determinant of overall bonus pay-outs.

Bonus pools are calculated at a business unit level and for the Group as a whole on the basis of financial results. The bonus pool is typically funded by a set percentage of profits if the target ROE for the business unit has been achieved or exceeded.

A target for financial performance is set annually relative to a Risk Free Rate, which is effectively what shareholders could earn by investing their money in low risk, short-term government bonds. Performance above this target is rewarded and where performance falls below this target, pay-outs will be nil.

For the profit bonus, when determining the size of the overall bonus pool following the year-end, the Group Remuneration Committee is able to make adjustments where appropriate. This may include making adjustments to recognise the performance of developing/fledgling businesses where bonus awards may not be fully self-funding (at an individual business unit level) in early years. In extreme cases, the size of the overall bonus pool may be reduced if the Committee deems that payments would compromise Hiscox Group's future capital base or results are considered to have been achieved in a manner outside of the Group's risk appetite or the risk appetite of individual legal entities, including HIC.

Performance Share Plan (PSP)

Share awards under this scheme are typically made to senior leaders at the discretion of the Group Remuneration Committee. Awards normally vest after a three-year period subject to the achievement of financial and non-financial performance conditions. These performance conditions are reviewed annually and set to align with the long-term objectives of Hiscox Ltd, the ultimate parent company of HIC.

Main characteristics of supplementary pension or early retirement schemes for members of the Board or other key function holders

There are no supplementary pension or early retirement schemes for members of the Board or other key function holders of HIC.

B.1.4. Material transactions during the reporting period with shareholders, persons who exercise a significant influence on HIC and with members of the Board

There were no material transactions during the reporting period with shareholders, with the exception of the declaration of an interim dividend of £20,000 thousands for the year ended 31 December 2022 paid during 2022. There were no material transactions with persons who exercise a significant influence on HIC or with members of the HIC Board.

B.2. Fit and proper requirements

B.2.1. Description of the skills, knowledge and expertise applicable to the persons who effectively run HIC or have other key functions

HIC maintains a Fit and Proper framework. This framework facilitates compliance with the PRA and FCA Senior Managers and Certification Regime (SMCR).

This framework is designed to ensure that all individuals in scope of SMCR are deemed Fit and Proper at all times to perform their role effectively and in accordance with the relevant regulatory requirements to enable sound and prudent management of the Company. All Board members and any member of staff who is a SMF is required to have the relevant professional qualifications, knowledge and experience to enable sound and prudent management.

Individuals are required to fulfil the following at all times:

- Maintain the required personal characteristics (reputation, financial soundness, honesty and integrity);
- Possess the appropriate level of competence, knowledge and experience to perform their role effectively (competence and capability);
- Have the appropriate relevant qualifications to perform their role effectively (competence and capability); and
- Have undergone or be undergoing any necessary training required to perform the role effectively (competence and capability).

Details of HIC's SMFs are included in Section B1.1. above.

Any individual who is identified as a SMF, Certificated individual or Material Risk Taker (MRT) are subject to abide by the Group Fitness and Propriety policy. This policy works in conjunction with the PRA and FCA SMCR requirements.

B.2.2. Process for assessing the fitness and the propriety of the persons who effectively run HIC or have other key functions

Fitness and propriety assessment on appointment

A Fit and Proper assessment on appointment is undertaken for roles that have been identified as effectively running Hiscox or are responsible for significant functions, being either appointed to a SMF, Certificated or MRT role. The Fit and Proper assessment will be completed prior to the individual commencing their duties as a regulated individual.

The Fit and Proper assessment made at initial appointment will normally include (but may not be limited to):

- Interview with appropriately qualified manager(s) and relevant senior experienced individuals (SMF candidates will be seen by at least three SMFs and Certified candidates by at least two Certified individuals);

- Collection of satisfactory regulatory references from previous employers for the previous six years;
- Completion of a self-attestation by the candidate that they are Fit and Proper to perform their role effectively; and
- Background checks, verifying information provided including:
 - Criminal disclosure;
 - Credentials;
 - CV;
 - Education and qualifications;
 - Right to work;
 - Directorship search;
 - FCA register search; and
 - Other legal, regulatory and financial checks as appropriate.

In addition, members of the HIC Board are subject to an evaluation of board effectiveness.

Annual fitness and propriety assessment

For all individuals who are certificated staff, SMFs or MRTs an annual Fit and Proper assessment will be undertaken. This assessment will include (but may not be limited to):

- Background checks, verifying there has been no relevant change to individuals' criminal disclosure or financial situation;
- Completion of a self-attestation by the individual that they are Fit and Proper to perform the role effectively;
- Verification that any mandatory training has been completed satisfactorily;
- Annual Performance and Development Review (PDR) by an appropriately qualified line manager (this PDR will take into account consideration of any disciplinary action taken as a result of a breach of the SMCR Conduct Rules); and
- Review of specific risk based objectives and commentaries and verifying that there have been no conduct rule breaches.

B.3. Risk management system including the ORSA

B.3.1. Description of the risk management system

HIC has an established Risk Management Framework (RMF) in place, illustrated in Figure 5. The RMF is designed to operate continuously. It is reviewed and enhanced regularly in light of changes to the risks HIC is exposed to, the external environment and evolving practice on risk management and governance.

The Board has ultimate responsibility for setting HIC's risk strategy and the amount of risk that the Company can accept in order to maximise the likelihood of achieving business plan objectives and for the overall effectiveness of the risk management framework.

Risk identification (includes risk definition and risk ownership)

Risk identification is achieved by clearly defining an exposure (e.g. identifying the potential drivers and consequences of the risk) and identifying a risk owner responsible for management of the exposure. HIC's material risks and the key controls used to mitigate them are documented in its Risk and Control Register (RCR).

The RCR details HIC's current key risk exposures including a qualitative assessment of the probability and impact, risk mitigation/controls and related monitoring and reporting processes. The RCR is periodically reviewed and updated as HIC identifies and assesses the material risk exposures and the appropriateness and effectiveness of the risk management framework and system of internal control.

Each year, HIC identifies a number of 'Critical risks' as part of its risk identification and RCR refresh processes. A Critical risk is defined as an exposure which materially threatens financial strength, severely impacts business operations or significantly affects strategy. Critical risks often develop over a short time or offer limited time to react, respond or recover, thereby requiring continuous focus. Critical risks are reviewed regularly by the Risk Committee as a standing agenda item.

Risk appetite

Risk appetite is communicated in qualitative and quantitative terms, describing the level and types of risk the Board is willing to assume in order to achieve their strategic objectives and business plan. HIC's risk appetite framework allows clear monitoring and management of risk exposure in relation to the Board's willingness to take on risk.

Risk measurement

Risk measurement is the assessment of HIC's actual risk exposures using various methods including risk and capital models, stress and scenario testing, reverse stress testing, and expert judgement. This enables the prioritisation of risk and mitigating actions.

Risk mitigation

Risk mitigation involves implementing and maintaining internal controls and other mitigation techniques to manage, reduce or eliminate risk exposures as part of the system of internal control.

After risks are formally assessed, a decision is made on how to mitigate them to reduce exposure or to maintain them at an acceptable level. Determining the most appropriate response involves understanding the associated costs and benefits. Risk mitigation techniques include: strengthening existing controls or introducing new ones; risk transfer mechanisms (e.g. entering reinsurance arrangements); and risk avoidance (i.e. taking action to prevent exposure to the risk at all).

The methods used to mitigate each of HIC's material risks are described in more detail in Section C.

Risk monitoring

HIC operates a number of practices and tools to monitor risk exposures, trends, effectiveness of controls and changes across the Company

Risk monitoring provides different lenses over HIC's risk environment, including topical current risk issues through to deep dive analysis as part of Risk Reviews. Monitoring of risks occurs at various levels across HIC, including at a functional and management level. Critical risks and other significant exposures are monitored at Board and Committee level on a regular basis, with more frequent monitoring occurring at the business and functional levels.

Risk reporting

HIC employs a broad risk reporting system to raise awareness of risks across the business.

Risk reporting describes the methods and forums used to communicate and discuss risk and control exposures and issues, including the escalation routes that support appropriate risk governance.

Material risk types and Critical risks are formally reported to Management, the Board and Board Risk Committee regularly, with more frequent reporting at the business and functional levels.



Figure 5

B.3.2. Implementation of the risk management system

The sub-sections below outline how the risk management framework is implemented and integrated in HIC's organisational structure, culture and decision-making processes.

On a regular basis all material risks are assessed to ensure that even following a series of significant loss events, sufficient capital is available to support risk exposures and regulatory requirements, and to meet financial obligations, particularly to policyholders. For material risks, exposure is measured against an established risk appetite to ensure each risk remains within acceptable levels.

As part of the Risk and Control Self-Assessment (RCSA) process, a qualitative assessment of each risk's likelihood and impact is performed by risk owners, with input from the control owners and challenge from the Group Risk Team. Assessments are completed on both an inherent and residual basis, defined as follows:

- 'inherent risk' is the risk that the event would pose if there were no controls or other mitigating factors in place; and
- 'residual risk' is the risk that remains after current controls or other mitigating factors are taken into account.

The methods used to measure each of HIC's material risks are described in more detail in Section C.

The UK Leadership Team (UKLT) have regular engagement with the Group Risk Team and the HIC Chief Risk Officer (CRO) is a member of the UKLT. This provides an opportunity to discuss any risk areas of heightened concern and/or interest and allow for closer oversight and monitoring of risk at a Management level ahead of Board Risk Committees.

Risk reporting is completed for the HIC Board and for the HIC Risk Committee to highlight material exposures requiring the Board's consideration, action or response. Some examples of risk reporting HIC undertakes are:

- Regular assessment of Critical risks;
- Dashboard of topical risk issues;
- Climate stress testing for HIC investment portfolio;
- Key risk section in each Board report;
- CRO report for Board meetings;
- ORSA report;
- Results of risk and control self-assessment;
- Results of stress and scenario and reverse stress testing;
- Risk appetites and limits monitoring; and
- Operational risk event reporting.

Risk governance

At the heart of risk governance is the HIC Board's oversight responsibility for risk management. The Board has ultimate responsibility for the overall effectiveness of business operations and the RMF, including oversight of the three lines of defence, ensuring appropriate and proportionate balance is maintained.

Within the second line of defence, the HIC CRO is ultimately accountable for the overall management of the risk management framework and associated strategies, processes and reporting procedures. To ensure their independence and objectivity, the HIC CRO reports to the Group CRO who has a dotted line reporting to the Group Risk Committee Chair. The HIC CRO is also entitled to direct reporting to the HIC Board and has independent access to the Board's Directors, including the HIC Risk Committee Chair. The HIC CRO is the SMF4 function holder for HIC, supported by the UK Risk Manager. Both these roles are independent from first line decision-making.

The Risk team has the following key responsibilities:

- Designs, maintains and periodically reviews the risk management framework and facilitates its implementation;
- Provides challenge and advice to the business on the decisions it takes considering the payoff and other risk-return considerations.
- Coordinates the HIC Risk Committee reporting and produces regular risk reporting for the Risk Committees and Boards, including operational risk event reporting;
- Coordinates the Own Risk and Solvency Assessment process and facilitates the production of the ORSA reports for the HIC Board at least annually. This incorporates the risk and control self-assessment;
- Assesses current and forward-looking risk exposures using various methods including the use of risk and capital models, stress and scenario testing (including reverse stress testing) and expert judgement;
- Tracks aggregate exposure across the Group against Board-approved risk policies, appetite and limits;
- Escalates any breaches of risk appetite and limits to the Board and/or Risk Committee in accordance with HIC's governance arrangements;
- Conducts Risk Reviews; and
- Owns, designs and implements the internal model validation framework, and is responsible for the validation of the internal model at least annually.

B.3.3. Own Risk and Solvency Assessment (ORSA)

ORSA process

The ORSA process is defined as the set of ongoing practices and business decisions that HIC engages in to identify, measure, monitor, manage and report the risks to which it is exposed and to determine the corresponding capital needs on a current and forward-looking basis. The ORSA is an integral component of risk management specifically considering:

- HIC's approved strategy and business plan;
- The composition and dynamics of the current and forward looking risk profile;
- HIC's capital requirements (regulatory and internal), whether they are appropriate for the business' risk profile and whether HIC has sufficient assets available to meet them;
- The robustness of HIC's current and prospective solvency and liquidity, including consideration of a range of potential scenarios that could stress the business model, and how Management and the Board would respond should those circumstances arise; and
- Maintaining sufficient financial strength to pay insured claims is a critical consideration of the ORSA process.

The following diagram illustrates the components of the ORSA process.



Figure 6

Determination of HIC's own solvency needs

HIC uses a number of measures to determine its 1 in 200 year capital requirements for its modelled risks. HIC's use of the Solvency II Standard Formula for the calculation of its capital needs has been tested for appropriateness in light of HIC's risk profile. This provides comfort for its use in calculating HIC's regulatory capital requirement.

In addition to the Standard Formula, HIC uses the Hiscox Group's Integrated Capital Model (HICM), a non-regulatory economic capital model, to measure its own internal view of its overall solvency needs (ORSA capital) and to monitor its risk profile.

Forward looking assessments are produced to show the expected evolution of the business over the next three years under various scenarios and the impact on capital. Sensitivity testing is conducted to measure the capital impact of a number of changes in inputs to the capital requirement, including changes in assumptions and expert judgements.

Stress and scenario testing, including reverse stress testing, is used to assess the robustness of the business plan and capital in light of a range of potential threats and issues, and to identify plausible and feasible future management actions which could be taken under those scenarios to protect the business and facilitate their viability. These tests involve identifying and considering potential events or triggers which could affect or change the business in the future and their reactions to these events. A range of such tests are conducted by the business over the course of the year.

All rating agencies evaluate Hiscox on a Group basis, therefore there is no specific rating agency capital requirement for HIC.

ORSA reporting

An ORSA report is produced at least annually to summarise the key findings from the ORSA process. The report is reviewed and approved by the Board, however the various outputs from the ORSA process are reviewed and challenged by the Board and Risk Committee throughout the year.

Over the course of the year, HIC's performance against the approved business plan is monitored and the budget re-forecast as necessary. If there was reason to believe that internal or external events could have resulted in a material change to the business risk profile, capital measures or solvency position, or would be likely to in future, elements of the ORSA process would be re-run to evaluate whether HIC continues to hold sufficient capital and remain compliant with its regulatory capital requirements. A significant change in capital requirements could lead to actions such as a change in the business plan or to the creation of a plan to obtain additional capital.

In practice, a re-run of the entire ORSA process (or elements of it) would be performed if an event or deviation from the business plan resulted in:

- A major model change as outlined in the HICM Change Policy¹; and/or
- A reduction of available capital or surplus of the same percentage as that for a major model change as outlined in the HICM Change Policy.

B.4. Internal control function

B.4.1. The internal control system

Internal controls are the processes, systems and approaches that HIC has in place to provide reasonable assurance regarding the achievement of its strategic, financial, operational and compliance objectives. In practice, internal controls also provide the Board and senior management with reasonable assurance that risks are being managed within the Board's approved risk appetite. The following diagram illustrates the five components of the system of internal control.

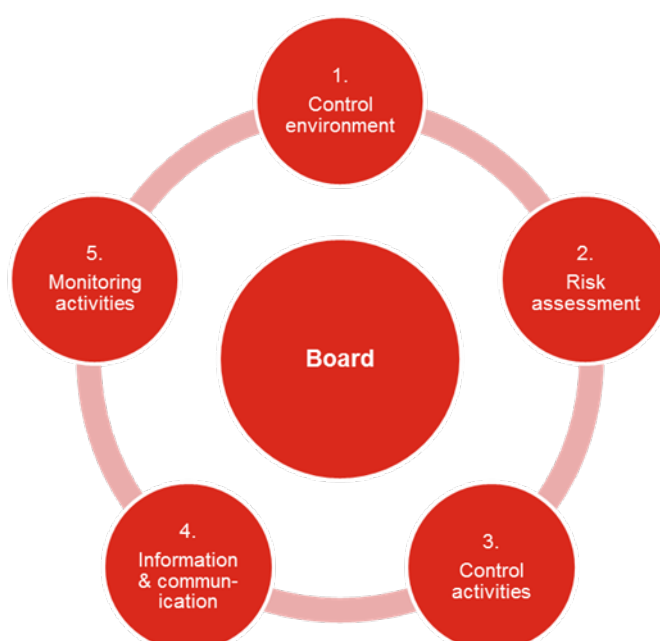


Figure 7

¹ The HICM Change Policy outlines the circumstances which would trigger a major change to the HICM, both quantitative and qualitative. The only capital measures which fall within the scope of the HICM Change Policy are the outputs from the HICM. For the ORSA to be re-run, the circumstances which would trigger a major model change will be extended to all capital measures which fall within the scope of the ORSA.

Control Environment: The collective set of standards, processes and structures that provide the basis for establishing and maintaining internal control across HIC.

Risk Assessment: This is the process by which HIC identifies and assesses the material risks which could influence the achievement of its objectives.

Control Activities: The actions that individuals take to implement and operate HIC's internal controls to reduce the impact or likelihood of the risk and keep exposure within appetite. They are performed at various stages within business processes and across the technology environment. They may be preventative, directive, detective or corrective in nature and encompass a range of both manual and automated activities.

Information and Communication: Information on the risk environment is routinely shared with the business. Management uses information from both internal and external sources to support decision making and ensure the functioning of the system of internal control and reports this to the HIC Board and Risk Committee as appropriate, to enable them to discharge their oversight responsibilities.

Monitoring Activities: Risks and controls are monitored by risk and control owners through normal day-to-day business operations. Risk Committees are held quarterly to monitor HIC's risk exposures. On an annual basis key risks and controls are assessed and confirmed as appropriate by the risk owners as part of the Risk and Control Self-Assessment process (RCSA) review and update process. This process also provides the opportunity for risk and control owners to identify new risks and controls to be recorded in the RCR. In addition, Internal Audit provides an annual assessment to the HIC Board and Audit Committee on internal controls.

The system of internal control has been developed to adhere to the following principles:

1. Board ownership and oversight of the overall effectiveness of the Risk Management Framework, including the system of internal control;
2. Clear risk and control ownership across the business;
3. Clear definition and articulation of individuals' accountabilities, roles and responsibilities;
4. Proportionate approach that focuses on Critical risks and key controls that have the potential to materially affect HIC; and
5. Efficient system that transparently balances the potential costs of controls (including both implementation and opportunity costs) against the benefits.

B.4.2. The Compliance function

Hiscox Group's Compliance function is independent of any business unit and is, with Risk Management, the second line of defence in the Hiscox Group's Risk Management Framework.

It has four key functions: regulatory policy and advisory; compliance monitoring; second line regulatory reporting oversight and communication with regulatory supervisors.

The Compliance function provides regular reports to the HIC Risk Committee on the management of compliance risk and the impact of any future changes in the regulatory environment on the Company. The Compliance function also provides the UKLT with a monthly report covering regulatory horizon scanning, compliance monitoring activity, interactions with regulators and commentary on any compliance incidents or breaches.

Compliance is also responsible for the creation and implementation of internal regulatory policies. In carrying out its duties, the Compliance function is entitled to full and unrestricted access to all of the Group's activities and to the HIC Board.

B.5. Internal Audit function

B.5.1. Implementation of the Internal Audit function

The Internal Audit function of HIC is framed by Hiscox Group's Internal Audit function which operates at a Group level and is part of the internal control system. The Group's Internal Audit function provides objective and independent assurance and advice to the Group's Audit Committees (including HIC's Audit Committee) and the Group's Boards of Directors (including the HIC Board) regarding the adequacy and effectiveness of the processes and systems of internal control, governance and risk management operating in the Group.

The scope of the Internal Audit function extends to all legal entities and business units in the Hiscox Group, including HIC.

The Internal Audit team is responsible for the development of an internal audit plan, with a corresponding budget. This plan is a rolling twelve month plan which is updated every six months to ensure it remains aligned to the key risks facing the Group's legal entities (including HIC). The plan is developed using a risk-based approach, including input from Senior Management. Prior to submission to the Hiscox Group Audit Committees (including the HIC Audit Committee) for approval, the plan is shared with Senior Management.

In setting its plan scope, the Internal Audit team takes into account business strategy and forms an independent view of whether the key risks to the Group and its individual entities such as HIC have been identified, including emerging, critical, and systemic risks, and assessing how effectively these risks are being managed. The Internal Audit team's view is informed, but not determined, by the views of Management and the Risk function. In setting its priorities and deciding where to carry out more detailed work, the Internal Audit team focuses on the areas where it considers risk to be higher. It makes a risk-based decision as to which areas within its scope are included in the plan; it does not necessarily cover all of the potential scope areas every year.

The Internal Audit team reviews the plan regularly and advises the HIC Audit Committee of any material alterations to it. Any impact of resource limitations and significant interim changes are communicated promptly to the HIC Audit Committee and Executive Management.

The function is fully independent and reports to the Audit Committee (including the HIC Audit Committee), Boards, Senior Management and other relevant stakeholders on the outcomes of its work. Agreed actions are monitored to confirm they have been carried out. Ad hoc and other special reviews are conducted as necessary.

In carrying out its duties and responsibilities, Internal Audit is entitled to:

- full and unrestricted access to all of the Group's activities, records, property and information;
- full and free access to the Hiscox Group Audit Committee, and other subsidiaries' Audit Committees including HIC's;
- allocate and apply resources, scope of work and audit techniques, set frequencies and select appropriate subjects in order to meet its objectives; and
- the assistance of staff across the Group where necessary to fulfil its objectives.

In addition, the Internal Audit function has free and unrestricted access to the Group Board and other subsidiaries' Boards, including HIC. The Group Chief Auditor has the right of attendance at all or part of any of the Group's governance and risk forums, or any other forum or committee in the execution of the Internal Audit function's remit.

B.5.2. Maintaining an independent Internal Audit function

The Internal Audit function is independent of the activities that it audits, in order to ensure unbiased judgements and impartial advice to the Hiscox Group's Audit Committees, including HIC Audit Committee, and to Management. In order to ensure this independence and objectivity, the Internal Audit team members report directly to the Group Chief Auditor, who reports directly to the Chair of the Hiscox Group Audit Committee. The Internal Audit team also adheres to the Chartered Institute of Internal Auditors' Code of Ethics. Where the Internal Audit team is unable to provide independent and objective assurance in a particular circumstance, a third party or parties with the requisite expertise may be engaged.

In order to fulfil its responsibilities efficiently and effectively, the Internal Audit team may also co-operate with other functions or assurance providers within the Group (for example, Group Compliance or technical underwriting reviews). Where such co-operation takes place, the work will be planned and carried out in such a way as to ensure that the independence and objectivity of Internal Audit remain safeguarded.

B.6. Actuarial function

The actuarial function of HIC is responsible for:

- calculating the technical provisions (an estimate of the amount the Company will need to pay out in the future to settle insurance claims). This involves ensuring that the methodologies and underlying models used for this purpose are appropriate;
- assessing the sufficiency and quality of the data used in the above calculation;
- monitoring the claim experience (the amounts paid and reported to HIC) and comparing those against the amounts predicted by the actuarial models;
- contributing to the effective implementation of HIC's risk management system, including risk modelling, ORSA and involvement in the calculation of the capital requirements;
- providing an opinion on HIC's underwriting policy; and
- providing an opinion on HIC's reinsurance arrangements.

The HIC actuarial function is made up of qualified individuals who have expert knowledge of actuarial and financial mathematics, and who possess skills that make them appropriate for the role. The HIC actuarial function consists of the HIC Chief Actuary and other members of the Group Actuarial team. The HIC Chief Actuary produces reports each year on the above matters, setting out their conclusion and the underlying analysis supporting this conclusion. The HIC Chief Actuary and the actuarial function escalate any relevant matters to HIC's Audit Committee and the Executive Committee of the Hiscox Group as appropriate.

B.7. Outsourcing

B.7.1. Outsourcing policy

HIC has adopted the Hiscox Group Outsourcing Policy. The outsourcing policy sets out the responsibilities and considerations for HIC when outsourcing services, together with the associated reporting and monitoring arrangements to be implemented where outsourcing is used.

The purpose of the outsourcing policy is to set out the strategy and process for selecting and managing outsourced services, governed by this policy, that satisfy all applicable regulatory requirements whilst optimising the value HIC obtains from its service providers. Furthermore, the policy provides an approach that addresses the need to identify, assess and manage the potential operational risks of outsourcing resulting from significant changes to people, processes and systems.

The outsourcing policy has been developed to ensure that prudent selection and management methods are employed for outsourced arrangements and by providing a good practice guide for HIC.

The outsourcing policy specifies the requirements for both outsourcing to external service providers and internal outsourcing where services are provided to HIC by other members of the Hiscox Group.

The process covers:

- Identification of potential suppliers;
- The obligations of the contracted parties;
- Monitoring and management of the contract; and
- Orderly exit from the contract.

Figure 8 identifies where operational functions considered critical or important have been outsourced (either in full or in part) including where the service provider is located.

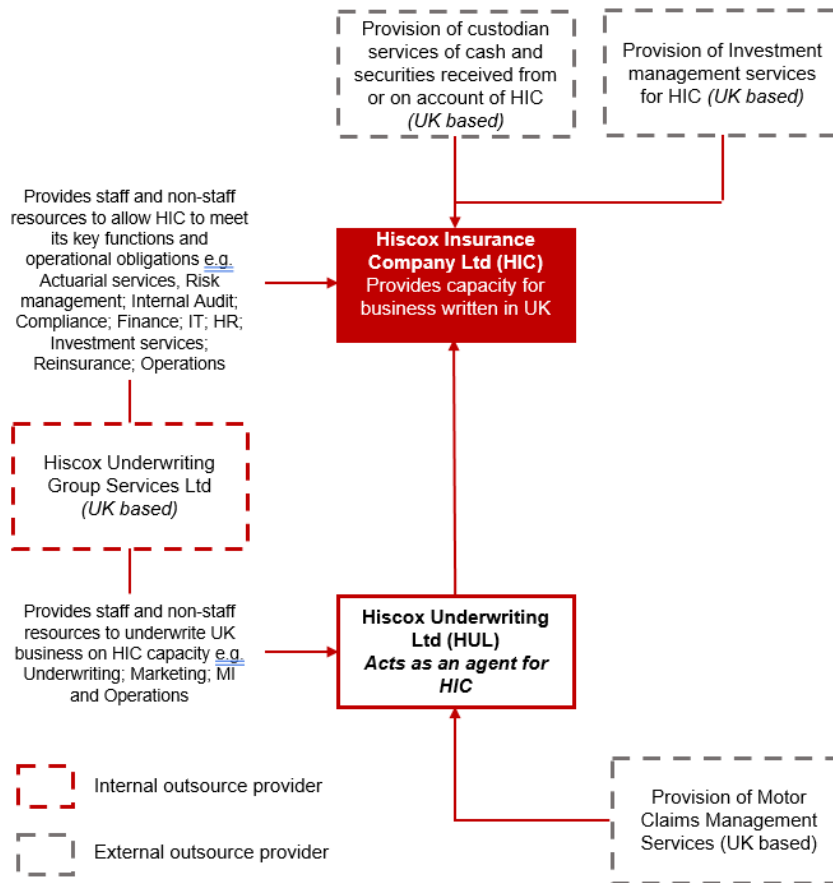


Figure 8

B.8. Any other information

The Board considers the HIC system of governance to be appropriate given the nature, scale and complexity of the risks inherent in its business. All material information relating to HIC's system of governance has been disclosed in Sections B.1 to B.7 above.

C. Risk profile

The risk profile information presented in Section C is based on an analysis of the SCR at 31 December 2022 together with the 2023 business plan approved by the Board in November 2022. For further details please see Sections C.1. - C.7. below.

The monitoring of HIC's risk profile assists Management and the Board with ensuring that risk is taken in a consistent and balanced way, and within the Board's risk appetite. As described in Section B.3.2., HIC uses various quantitative and qualitative methods to track its actual risk exposure, including the Solvency II Standard Formula to calculate its regulatory SCR. This section focuses on the diversified capital requirement for HIC, whereas the Executive Summary examined the pre-diversified Standard Formula SCR. The movements in the components of the SCR between 2021 and 2022 are explained in further detail in Section E.2.8.

The majority of the Standard Formula SCR is attributed to underwriting risk and the next largest risk area is market risk. Further information on each risk type is detailed below.

The main method used to track actual risk exposure is the risk profile tool generated by the HICM. This is an economic capital model which is used for internal purposes which enables HIC to regularly monitor its exposure to its material risks against its expected business plan, risk appetite limits and risk tolerances at various return periods. The output from the resulting analysis is presented to the HIC Risk Committee, detailing any material changes from the previous update. The downside potential for a loss is openly communicated and closely monitored.

The composition of HIC's capital requirement under the Standard Formula SCR for the year ended 31 December 2022 is shown in figure 9a and can be compared with the prior year ended 31 December 2021 in figure 9b.



Figure 9a Composition of SCR for 2022



Figure 9b Composition of SCR for 2021

The ORSA process and risk management framework, described in Section B.3.3, provide the basis for monitoring the effectiveness of HIC's risk management on an ongoing basis.

The Standard Formula quantifies underwriting risk, market risk, credit risk, operational risk and liquidity risk. The latter is not material for HIC. Other risks are not explicitly modelled under the Standard Formula.

C.1. Underwriting risk

C.1.1. Risk description

The predominant risk to which HIC is exposed is insurance risk, which is assumed mainly through the underwriting process. Insurance risk is defined as 'the possibility that insurance premiums and/or reserves are ultimately insufficient to fully settle claims and associated expenses'.

Within the RCR, it is sub-categorised into i) underwriting risk, and ii) reserve risk.

Underwriting risk

Underwriting risk is the risk that insurance premiums will not be sufficient to cover insurance claims that have yet to occur and associated expenses, or that actual exposures taken on do not align to HIC's underwriting strategy. Underwriting risk can arise from poorly managed exposure, inappropriate underwriting models, loss experience not emerging as expected, changes in market conditions, or poor staff training and monitoring. Exposure to climate risk is considered more specifically in Section C.6 below.

Key underwriting risk exposures include:

Risk type	Risk grouping	Risk name	Risk definition
Insurance	Underwriting	Underwriting exposure management	Insurance exposures accumulate to an unacceptable level, are not fully understood or materialise unexpectedly.
		Pricing	Failure to price policies adequately or make commercial risk selection decisions.
		Authority breach	Accepting risks outside of agreed underwriting parameters or where authority limits have been breached.
		Contract or policy wordings	Policy wordings are vague, incorrect and/or do not adequately reflect exposure assumed.

Table 10

Reserve risk

Reserve risk is defined as the risk that reserves set in the financial statements ('booked reserves') / SII balance sheet ('technical provisions') in respect of insurance claims are ultimately insufficient to fully settle these claims and their associated expenses. This definition includes claims from all policy exposure earned and unearned at the relevant balance sheet date.

Reserve risk arises as a result of HIC's core underwriting business in that it needs to make financial provisions for earned unpaid claims, defence costs and related expenses to cover its ultimate liability both from reported claims and from 'Incurred But Not Reported' (IBNR) claims. There is the possibility that the financial provisions or claims reserves held to cover the earned ultimate liabilities are not sufficient for its exposures, which could affect HIC's earnings, capital and possibly even its survival.

The final quantum for casualty claims may not be established for many years after the event. A significant proportion of the casualty insurance amounts reserved on the balance sheet may not be expected to settle within 24 months of the balance sheet date. Consequently, our approach is not to recognise favourable experience in the early years of development in the reserving process when setting the best estimate.

In addition, a risk arises in relation to unearned and future business including Bound But Not Incepted (BBNI) contracts which is termed a premium provision risk. Premium provision risk is considered as part of HIC's Claims Reserves risk, which is described in Table 11. HIC makes financial provision for these unearned and future losses by applying the expected loss ratio to the unearned and future premium. An estimate of additional Solvency II expenses and Unallocated Loss Adjustment Expense (ULAE) in relation to these claims is also included, as is a bad debt provision in relation to recoveries that may not be received. Unearned and future premiums receivable and unearned and future ceded premiums payable are included within the premium provision.

Key reserve risk exposures include:

Risk type	Risk grouping	Risk name	Risk definition
Insurance	Reserves	Claims reserves	Unsuitable case reserves (e.g. over- or under-reserving) and/or insufficient technical reserves in place to meet incurred losses and associated expenses.

Table 11

C.1.2. Risk mitigation

HIC has established controls to manage and mitigate its key insurance risks.

The key controls and mitigation in place for HIC's Insurance risks include:

- Peer Reviews;
- Underwriting Authority Letters;
- Exposure Management Groups;
- Technical Underwriting Reviews;
- Claims Underwriting Guides;
- HIC Pre-Reserving Committee and Reserving Committee;
- Reserve reviews and audits;
- Review and sign-off of reserves by the Audit Committee; and
- Independent actuarial review of reserves.

Peer reviews are in place for underwriting, claims and reserving, to act as an independent check that staff have acted within their authority and according to defined processes. Trends from peer reviews are reported to underwriting management to highlight control weaknesses and training needs.

Underwriting authority letters and claims authorities set out the parameters within which underwriting and claims staff can operate. For example, authority limits are based on experience and restricted to certain lines of business, with referrals to a more senior underwriter for approval before binding a risk where necessary. Ensuring that underwriters operate within defined parameters helps HIC to monitor its exposure to risk geographically and by line of business.

C.1.3. Measures used to assess risk

Underwriting risk and reserve risk are both explicitly modelled within the risk profile (see Figure 9).

For underwriting risk and reserve risk, measurement is performed via the use of risk and capital models, including the risk profile, and expert judgement. The risk profile tool allows HIC to clearly measure actual exposure against parameters that articulate the amount of risk it is prepared to accept.

Stress and scenario testing, as well as reverse stress testing, is also used to assess underwriting and reserve risk, please see Section C.7.1. for further information and results of HIC's most recent testing.

C.1.4. Risk concentration

HIC writes a focused book of commercial and personal insurance risks. The portfolio concentrates on professionals and small and medium sized businesses as well as mid net worth and high net worth individuals. Concentration of underwriting exposure may exist across counterparties, industries and/or geographic locations, however these are closely monitored and managed through aggregate insurance exposure monitoring processes.

C.1.5. Material changes over the reporting period

The increase in HIC's insurance risk requirement is primarily driven by an increase in catastrophe risk due to changes in its reinsurance programme.

During 2022, HIC has embedded the Group ESG exclusions policy and updated its risk appetite statements to reflect this.

C.2. Market risk

C.2.1. Risk description

Market risk is the threat of unfavourable or unexpected movements in the value of HIC's assets and/or the income expected from them, owing to movements in market prices or defaults on income generating assets. Within the Risk and Control Register, market risk is sub-categorised into i) foreign exchange risk and, ii) investment risk.

Risk type	Risk grouping	Risk name	Risk definition
Market	Foreign exchange	FX Risk	Economic capital position deteriorates as a result of unfavourable or unexpected movements in currency exchange rates.
	Investments	Investment Risk	Probability of loss over a 12 month period for a given investment strategy, or the exposure to inappropriate assets/asset classes, or operating outside of authorised strategic asset allocation or tactical asset allocation limits.
Table 12			

HIC chooses to assume market risk in order to optimise the return on assets while ensuring that funds are available to pay claims when required.

C.2.2. Investment management in accordance with the ‘Prudent Person’ Principle

HIC’s investment objective is to maximise the risk-adjusted return within the agreed risk limits without impacting the ability to underwrite business.

The investment strategy will take into account the nature, scale, complexity and risk profile of HIC, the level of solvency required for ongoing and future underwriting, and cash flow to ensure payments to policyholders or creditors are able to be made as they fall due. The Investment Policy sets out the following:

- Assets will be managed in accordance with the ‘Prudent Person’ Principle;
- The portfolios will only assume investment risks that can be properly identified, measured, monitored, responded to and controlled;
- Assets held will be sufficiently diversified and secure as set out in the Investment Guidelines;
- Assets will be held in the appropriate locations for their availability, and in custody where applicable; and
- HIC has delegated investment management responsibility to HUGS to act as investment manager. HUGS has responsibility for the day-to-day investment management decisions subject to the restrictions set out in the investment guidelines as approved by the Board. HUGS will report to the Board quarterly on the investments of HIC.

C.2.3. Risk mitigation

HIC has established controls to manage and mitigate its key market risks.

Examples of some key controls in place for HIC’s market risks include:

- Currency matching and asset-liability matching strategy;
- Divisional Investment Group (DIG);
- Investment portfolio scenario and stress tests;
- Cash and Capital Committee meetings; and
- Investment manager performance management.

Matching the currency of assets with the currency of liabilities reduces the likelihood of HIC not being able to pay claims due to currency fluctuations. Matching the maturity of assets with the expected timing of liabilities helps to optimise returns on the investment portfolio, and preserve liquidity, which helps to avoid losses through liquidating assets before they are due to mature.

HIC retains sufficient cash to ensure planned and unforeseen liabilities can be covered in a timely manner, without impacting the investment portfolio. HIC uses external investment companies to manage its portfolio. The investment managers must operate within defined constraints set by HIC, and they provide regular updates on performance, which is reported to HIC’s Management and the DIG.

C.2.4. Measures used to assess risk

Investment and foreign exchange risks are explicitly modelled within the risk profile as part of the market risk category (see Figure 9). The currency mix of the business is also compared to the currency exposure in the SCR.

The Group investments team also has an established framework to monitor portfolio performance and adherence to portfolio mandates, with the results presented to the DIG, which monitor investment performance on behalf of HIC.

Market risks are measured as part of HIC's stress and scenario testing. Please see Section C.7.1. for further information and the results of these tests.

C.2.5. Risk concentration

To manage concentration risk, asset types and issuers are diversified.

The majority of investments held by HIC comprise cash and bonds, accounting for 88% of the portfolio. In the bond portfolio, the largest exposures are to UK government bonds and corporate bonds issued in Pounds Sterling. The largest individual exposure is to the UK government, which comprises 16% of all bond exposure and for corporate bonds there is a wide range of holdings covering multiple sectors across more than 80 issuers. The bond portfolios are actively managed and therefore individual positions and exposures are subject to change over time depending on the decisions of the investment managers. Each bond account is managed to specific risk and concentration limits agreed with each fund manager. These limits are designed to ensure adequate diversification of risk by bond issuer, credit rating, type of security and other risk exposures relevant to each mandate.

HIC is exposed to equity price risk through its holdings of equity pooled fund investments. These holdings comprise less than 15% of HIC's assets. As at the end of 2022, HIC held two funds and each fund held at least 30 underlying securities.

C.2.6. Material changes over the reporting period

HIC has continued its focus on managing the risks associated with climate change and pushing towards sustainability through its commitment to responsible investment. During 2022, work has continued to ensure ESG considerations are well embedded in investment processes and closely monitored.

C.3. Credit risk

C.3.1. Risk description

Credit risk is the risk of loss or adverse financial impact due to the potential default by counterparties to which HIC is exposed. It is expressed in terms of HIC's exposure to default, probability of default and loss given default and is modelled in the HICM.

Key credit risk exposures include:

Risk type	Risk grouping	Risk name	Risk definition
Credit	Credit	Counterparty default (reinsurer)	Default or downgrade of reinsurance counterparty (external), causing them to renege on their reinsurance contract(s) (e.g. non-payment of claims) or altering the terms of agreement.
		Counterparty default (broker)	Default of broker counterparty, causing them to renege on the Terms of Business Agreements (e.g. not passing payment to claimants) or altering the terms of agreement.
		Counterparty default (other)	Default of counterparties other than reinsurers and brokers (e.g. banks, investment managers, other custodians), causing them to renege on or altering the terms of agreement.

Table 13

HIC chooses to accept credit risks to reinsurers in order to protect itself from extreme losses and limit volatility. HIC is exposed to broker credit risk through its intercompany relationship with internal intermediary HUL. HIC authorises HUL to cascade risk transfer to duly authorised brokers and other intermediaries by permitting brokers and other intermediaries to act as HIC's agent for the purposes of receiving premiums from insureds, settling refunds and receiving claims monies prior to onwards transmission to HIC. HUL shall remain responsible to HIC for the proper discharge by brokers and other intermediaries of those powers and authorities. Credit risk with banks and investment counterparties is accepted with banking counterparties in order to protect HIC's funds and with investment managers in pursuit of a return on investment.

C.3.2. Risk mitigation

The key controls and mitigation in place for HIC's credit risks include:

- Collateral requirements for reinsurers;
- Group Credit Committee meetings;
- Reinsurance Credit Committee meetings;
- Counterparty concentration limits;
- Bank Exposure Monitoring; and
- Broker Exposure Monitoring

HIC's manages its credit risk through transacting with a variety of carefully selected counterparties which are assessed to ensure financial soundness. Counterparty balances are closely managed by the business with oversight from the Reinsurance Credit Committee and the Group Credit Committee.

C.3.3. Measures used to assess risk

HIC's exposure to credit risk is represented by the values of financial assets and reinsurance assets included in the balance sheet at any given point in time. HIC's gross receivables are exposed to the underlying internal intermediary's broker credit risk via its relationship with HUL, the internal intermediary.

Reinsurance credit risk and broker credit risk are both explicitly modelled within the risk profile (see Figure 9).

Credit risk is also included in HIC's stress and scenario testing. Please see Section C.7.1. for further information and the results of HIC's most recent tests.

C.3.4. Risk concentration

The concentration of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. Exposures are diversified as far as possible in accordance with Group policies, in order to avoid concentration of reinsurers, bond issuers, brokers or other counterparties. Further information on the risk of loss or adverse financial impact due to default by counterparties to which HIC is exposed is detailed in Note 3(g) of HIC's annual financial statements for the year ended 31 December 2022.

An analysis of HIC's current exposure to credit risk as at 31 December 2022 is detailed in Table 14.

HIC's Credit Risk Exposure (£000s)		
	2022	2021 (restated)*
Bonds	306,395	318,619
Reinsurance recoverables	389,876	476,658
Cash and cash equivalents	34,858	31,297
Gross receivables arising from (re) insurance contracts *	254,903	246,075
Provision for broker non recovery and impairment	(140)	(126)
Total	985,892	1,072,523

Table 14

* Gross receivables arising from (re) insurance contracts has been restated from £236,053 thousands. For further details, see note 2.2, on page 28, of HIC's Annual Financial Statements for the year ended 31 December 2022.

Further information on the risk concentration on HIC's bond portfolio is detailed in Section C.2.5.

C.3.5. Material changes over the reporting period

Standalone credit risk in percentage terms has remained flat over the reporting period at 7% in both 2021 and 2022.

C.4. Liquidity risk

C.4.1. Risk description

The characteristics of liquidity risk mean that it should be viewed across three different time horizons:

- Short-term - cash required in the coming months to cover normal trading activity including payment of known claims, expenditure and salaries;
- Medium-term - cash required to meet medium-term funding requirements including tax and dividend payments and planned project and capital expenditure; and
- Long-term - cash required to support the longer term ambitions of HIC including underwriting capital to meet growth ambitions and funding to support potential future stress scenarios such as catastrophe losses.

Risk type	Risk grouping	Risk name	Risk definition
Liquidity	Liquidity	Liquidity risk	Inability to meet cash requirements from available resources within appropriate/required timescales.

Table 15

Liquidity risk arises from the need to pay insurance claims and other liabilities, which may have an uncertain timing or quantum. HIC has to balance the liquidity of assets with their return and quality.

C.4.2. Risk mitigation

The key controls and mitigation in place for HIC's Liquidity risks include:

- Liquidity re-projections and stress testing;
- Cash and Capital Committee meetings;
- Divisional Investment Group meetings;
- Large loss procedures; and
- Cash flow monitoring.

HIC conducts stress and scenario testing to challenge the liquidity adequacy of the balance sheet. Any deficiencies are pro-actively identified and can be addressed accordingly.

C.4.3. Measures used to assess risk

Measures used to assess liquidity risk include tests on HIC's cash position to establish the impact of a major catastrophe and to identify potential issues. In addition, scenarios are conducted to consider the impact on liquidity should a number of adverse events occur simultaneously (e.g. an economic downturn and declining investment returns combined with unusually high insurance losses). Please see Section C.7.1 for more detail.

Liquidity is monitored monthly with updates presented to each HIC Board. The Hiscox Group Cash and Capital Committee plays a key role in governance and oversight of liquidity risk for the Group, including HIC. The committee monitors the short and medium term cash flow and liquidity, and takes action where appropriate.

C.4.4. Expected Profits Included in Future Premiums (EPIFP)

The EPIFP is £63,459 thousands (2021: £50,816 thousands) gross of reinsurance. This represents the profit that is expected to materialise from contracts which have been bound by HIC but the Company is yet to go through the risk exposure period to which the premium relates.

Line of Business	2022	2021
Fire and other damage to property insurance	17,858	11,739
General liability insurance	44,846	38,151
Others	755	926
Total	63,459	50,816

Table 16

EPIFP calculation methodology

EPIFP arise from the inclusion in the technical provisions of premiums on existing business that will be received in the future, but that have not yet been received.

The value of EPIFP is calculated by deducting the expected gross claims from the future gross premiums included in the technical provisions calculation. This is done separately for earned and unearned future gross premiums by applying the corresponding gross earned and unearned loss ratios at the line of business level of granularity. A deduction is also made for gross unearned expenses. The value of EPIFP is calculated as the maximum of zero and the premiums less claims less unearned expenses, aggregated across currency and underwriting year. The total EPIFP is calculated as the sum of the reserving class grouping EPIFPs.

C.4.5. Risk concentration

HIC's liquidity risk concentration is managed by holding assets with a variety of banks, bond issuers and credit institutions.

C.4.6. Material changes over the reporting period

HIC's liquidity position is continuously monitored and there has been no change in liquidity strategy, which remains to hold short-term, high quality liquid assets.

C.5. Operational risk

C.5.1. Risk description

Operational risk is defined as the risk of direct or indirect loss resulting from internal processes/controls, people, systems or external events.

Operational risk is inherent in all activities undertaken by HIC and can be organised into the following key elements:

- **People:** the management of human resources including employee behaviour and performance can become a major source of Operational risk. Poorly trained, overworked and/or under motivated employees are significant drivers for processing errors and/or potential fraud. In addition, the on-going availability of people, or ability to replace employees, can influence HIC's ability to recover from interruptions to its operations.
- **Systems:** day to day operations are supported by, and heavily reliant on, various different systems. This often involves complex Information Technology ('IT') systems which are required to process large amounts of data in relatively short timeframes to facilitate timely service levels to customers. The poor implementation, use and/or protection of systems increases the potential for major errors, systematic failures or breaches of information security.
- **Processes:** daily business operations generally involve a significant number of individual processes to deliver required outcomes and enable the business to function efficiently. Complex, poorly designed, inadequate processes, or processes that do not operate as intended, give rise to potential operational losses and other adverse impacts.
- **External Events:** this encompasses disruptive incidents, such as natural catastrophes or utilities

failure, which are outside HIC's control and generally results in the invocation of business continuity plans to ensure continuation of business activity.

Risk type	Risk grouping	Risk name	Risk definition
Operational	People	Retention and organisational gaps	Loss of implicit knowledge and experience of key individuals or teams, or failure to recruit the necessary number or calibre of human resources.
		Employment reputation/compliance	Failure to ensure employment and compensation practices are in line with market standards and are appropriate in the context of employment law or regulatory requirements.
		Lack of Rigorous Performance management	Ineffective (e.g. inefficient and reactive) management and/or monitoring of employee underperformance.
		Financial Crime (excl. Sanctions)	Failure to implement or maintain the processes and procedures necessary for the detection and prevention of fraud and financial crime, both internal and external.
	Systems	IT/systems failure	Major IT, systems or service failure (e.g. systems are disrupted, unavailable or insecure).
	Processes	Data security	Failure to implement or maintain the systems and processes necessary to protect the confidentiality, integrity or availability of information and data.
		Project risk/change management	Projects and/or change initiatives are not delivered to plan, budget or specification or the risks inherent to the project are not appropriately managed.
		Outsourcing	Ineffective or inadequate oversight of individual outsourced arrangements and/or the overall outsourcing portfolio; including both intra-group and external arrangements.
		Business continuity	Failure to restore the delivery of services, operations or premises to acceptable predefined levels following a disruptive incident
		Financial Misstatement	The risk that financial statements have been misstated to a material degree, as a result of error or fraud.
		Reserving Process	Ineffective processes, controls and systems in place to effectively manage and monitor reserves.
		Claims Management	Ineffective management of claims (e.g. customer experience and appropriateness of decisions).
		Underwriting Operations	The processes, controls and systems in place to support and monitor individual underwriting decisions are insufficient/ineffective.

Table 17

Exposure to operational risk is an unavoidable consequence of transacting insurance business.

C.5.2. Risk mitigation

The key controls and mitigation in place for HIC's Operational risks include:

People risks

- Succession planning;
- Training and development programmes; and
- Employee performance framework.

System risks

- Data back-up;
- IT access protocols;
- IT disaster recovery plans; and
- IT security (e.g. firewalls, email scanning and content filter).

Processes risks

- Project framework;
- Business Continuity Plan (BCP) testing;
- Underwriting and Claims Guidelines; and
- Information Security Committee monitoring of data security and privacy.

Operational risks are managed through a variety of controls and processes. This includes providing employees with the appropriate training to carry out their role and close performance management. IT and data security are mitigated through a number of system based controls and close oversight.

C.5.3. Measures used to assess risk

Operational risk is measured through the use of risk and capital models, such as the risk profile tool, which measures risk exposure against Board approved risk appetite.

Stress testing and scenario analysis also includes operational risks. Please see Section C.7.1. for further information on the results of the most recent testing.

Operational risk and near miss events are reported to the Risk function for analysis and to understand the root cause of each event. Summaries of these events and subsequent analysis is provided to the HIC Risk Committee on a quarterly basis.

C.5.4. Risk concentration

Concentration of operational risk is limited as HIC has multiple office locations, and remote working capabilities limit the risk of reliance on physical offices to trade. The PDR process and training and development programme aims to manage talent in order to reduce key person dependency and staff turnover. Documentation of policies and procedures also limit the reliance on specific individuals. HIC does have a reliance on IT and systems in order to service its customers.

C.5.5. Material changes over the reporting period

Operational risk as measured by the SCR has decreased marginally during the period consistent with the reduction in gross technical provisions.

During 2022, HIC has moved to an Agile approach to delivering change in order to improve change delivery and maximise return on investment. HIC has also introduced an Underwriting Academy in order to reduce the length of time required for underwriters to reach competence, and reduce the likelihood of resource gaps in the event of staff turnover. HIC has also continued its work on operational resilience scenario testing.

C.6. Other material risks

C.6.1. Description of other material risks

Strategic risk

Strategic risks are defined as the possibility of adverse outcomes that may result from strategic options/business initiatives taken or not taken by HIC. This may include business expansion or contraction, mergers and acquisitions, negative impacts to reputation and brand management, or failure of the Board to provide adequate oversight of the business or make appropriate business decisions.

Risk type	Risk grouping	Risk name	Risk definition
Strategic	Strategic	Strategy evolution and execution	Ineffective business plans and strategies, decision making, resource allocation or adaptation to changes in the business environment.
		Management of financial performance	Management of finances (including expenses) is not suitably tracked or controlled and infringes overall profitability.
		Capital management	Holding of inadequate or inappropriate capital resources vs. risk profile, regulatory capital or rating agency capital requirements, and/or inefficient use of capital.
		Conduct risk	Failure to pay due regard to the interests of customers or failure to treat them fairly at all times.
		Technology strategy	Outdated technology strategy or solutions in place to support business growth and harness relevant emerging technologies.
		Management of conflicts of interest	Actual or perceived conflicts of interest between Group entities or with third party capital providers cause HIC to fail to fulfil its duties to stakeholders.

Table 18

Regulatory and legal risk

The insurance industry is a highly regulated sector and, as such, is exposed to continuous regulatory change. This can affect the level of capital that firms are required to hold or require changes to how they are set up operationally from time to time. Regulatory and Legal risk captures the risk of failing to act in accordance with existing and emerging regulatory and legal requirements, or of deteriorations in the quality of HIC's relationship with its key regulators.

Risk type	Risk grouping	Risk name	Risk definition
Regulatory and legal	Regulatory and legal	Regulatory risk	Failure to act in accordance with relevant regulatory requirements in all relevant jurisdictions or deterioration in the quality of relationship with one or more regulators.
		Sanctions	The risk of direct or indirect engagement, including financial transactions, with sanctioned entities (individuals, businesses or countries).
		Tax governance	Failure to act in accordance with relevant taxation laws or adapt to changes in taxation.
		Legal risk	Failure to act in accordance with relevant legal requirements in all relevant jurisdictions.
		Privacy and Data Protection	The potential loss of control over personal data

Table 19

Group risk

Group risk is defined as the risks arising from the interconnected nature of the Group and its entities. This includes the risk that transactions conducted between HIC and other entities within the Group lead to complex interdependencies; or that decisions taken by the Group or another entity compromises HIC's position, strategy or regulatory standing (e.g. due to another entity failing).

Risk type	Risk grouping	Risk name	Risk definition
Group	Group	Internal transactions	Transactions conducted between entities within the Group lead to complex interdependencies amongst the Group or are not conducted in accordance with legal and/or regulatory requirements.
		Contagion risk	Decision(s) or action(s) taken by the Group or another carrier within the Group compromises the entity in question's going-concern position, strategy or regulatory standing (e.g. failure of carrier or other legal entity).

Table 20

As part of the Hiscox Group, HIC is connected to a number of other related Hiscox entities. These connections largely take the form of arrangements for services provision and reinsurance arrangements (predominantly with Hiscox Underwriting Limited, Hiscox Underwriting Group Services Limited and Hiscox Insurance Company (Bermuda) Limited). Hiscox plc is the parent company of all Hiscox insurance companies in the UK, including HIC's immediate parent company, Hiscox Insurance Holdings Limited. Hiscox plc is owned by Hiscox Ltd, which is also the parent company of Hiscox's other international insurers.

Climate risk

HIC manages the risks associated with climate change in accordance with the Hiscox Group ESG Framework. The Hiscox Group continues to take a strategic, holistic and long-term approach to managing risks associated with climate change which are considered as part of the ESG Framework. HIC leverages and utilises this framework in order to manage its ESG risks.

Pension Risk

The Hiscox Group has a defined benefit pension scheme which closed to new members on 31 December 2000 and future accruals on 31 December 2006. The pension scheme is sponsored by HUGS, and further supported by a guarantee from Hiscox plc, which houses a significant proportion of the Group's transferable capital and is the parent of HUGS and a number of other Hiscox entities. As a result, HIC does not hold capital separately against this risk. Pension risk is monitored regularly by the Hiscox Ltd Board. The HIC Board is provided with periodic updates on the scheme including its funding position for information.

C.6.2. Risk mitigation

Strategic risk

The key controls and mitigation for the critical strategic risks include:

- UK Leadership Team and HIC Board review of business plans and operating budgets;
- Business plan monitoring;
- Conduct Risk Framework;
- Stress and scenario testing;
- Board training; and
- Entity-specific governance.

The conduct risk framework is an important strategic control as it helps to ensure that HIC's customers are treated fairly in terms of the products we sell and the service that is provided in relation to them. HIC has a dedicated Conduct team and customer outcomes are considered at all stages of the customer journey. HIC has a UK Customer and Conduct Committee which meets quarterly to review management information for conduct risk, including a dashboard, and there are Conduct reports presented at each HIC Risk Committee and Board.

There is a structured process in place to ensure a robust business plan is developed with sufficient awareness of the risks that could prevent its achievement. This is supported by regular monitoring of performance against plan, which allows action to be taken if needed.

Regulatory and legal risk

Examples of some key controls in place for HIC's regulatory and legal risks include:

- Regulatory horizon scanning;
- Stress and scenario testing; and
- Regulatory engagement co-ordination by Group Compliance

The Compliance function undertakes regular regulatory horizon scanning to ensure that HIC is aware of emerging regulations it may be subject to. Updates on regulatory developments are also provided to the HIC Risk Committee and Board.

HIC carries out stress and scenario testing in order to challenge the capital requirements generated by the capital model. This helps to provide independent assurance that the capital held is sufficient to support the business following an extreme event. This also helps to pro-actively identify actions that management can take in order to recover from an extreme event. Further details are provided in Section C.7.

Group risk

Examples of some key controls in place for HIC's Group risks include:

- Hiscox Group Board oversight; and
- Contingency planning.

As part of the Hiscox Group, HIC is subject to oversight by its own Board and Committees, and also by the Group Board and Committees. This additional review, including by independent Non-Executive Directors, helps to provide comfort that HIC is operating in a responsible manner.

Contingency plans are in place which can be followed in the event of failure of another entity in the Hiscox Group, to minimise the impact on HIC.

Climate risk

HIC closely monitors claims experience and utilises centralised tools and activities such as capital modelling, catastrophe modelling, risk modelling and investment management to monitor and manage climate change risk. The Hiscox Group Climate Report contains further details on the Group's principles and approach to managing environmental and climate change risk, including key activities undertaken during 2022 and Hiscox's ambitions for the future.

During 2022, several enhancements have been made to the ESG Framework and associated activities, with several key developments highlighted below:

- **Sustainable underwriting** - Building on the progress made in 2021, Hiscox established an ESG data provider within the London Market business, which over time will support underwriting decisions in big-ticket lines and help factor ESG into future exposures. Hiscox will continue to assess an appropriate provider for Retail risks that can cater to the nuances of Retail and deliver a meaningful level of insight for smaller risks / entities. Further work will be carried out in 2023, including the further articulation of a Sustainable Underwriting Strategy.
- **Responsible Investment** - ESG is now well embedded in investment processes and Hiscox is also developing the tools to effectively monitor it via: a) embedded net zero wording in all core bond investment manager mandates, and enhanced ESG credentials of Hiscox's Emerging Market bond portfolio; b) an investment-focused ESG dashboard (Group and entity level) as part of Investment Committee reporting; c) Hiscox's first Principles for Responsible Investment (PRI) reporting submission.
- **Greenhouse gas (GHG) reduction targets** - Hiscox published its new Greenhouse Gas (GHG) targets for the Group during 2022. The following will support Hiscox towards meeting its targets: a) completion of a half year carbon footprint in order to provide a mid-point for assessing emissions and further enhance our data collection processes, b) better understanding of renewable energy usage across the Hiscox office estate, c) enhanced understanding of business travel data and d) development of a low carbon transition plan for the Group, in line with upcoming UK Government requirements and evolving external expectations.
- **ESG reporting** - ESG reporting requirements continue to grow. These currently include CDP, ClimateWise, Dow Jones Sustainability Indices (DJSI), Institutional Shareholder Services (ISS), MSCI, Sustainalytics and Task Force on Climate-related Financial Disclosure (TCFD). In August 2022, MSCI upgraded Hiscox's ESG rating from A to AA and we have also seen steady improvements year-on-year in our CDP, ClimateWise and DJSI scores.

C.6.3. Measures used to assess risk

Strategic risk, Regulatory and Legal risk, and Group risk are not modelled quantitatively by HIC. These risk exposures are believed to be covered by other risk types and management actions. Where specific strategic or group initiatives are under consideration, these are subject to individual risk assessment and measurement. As with all other risk types, these are included as part of risk dashboard monitoring and reporting to the Risk Committee. Pension risk is subject to a triennial valuation and updates are provided to the HIC Board.

C.6.4. Material changes over the reporting period

HIC has continued to focus on the implementation of its strategy, including focussing on distribution and digitalisation. This includes completing a review of the technology roadmap and strategy, developing a digital trading solution and working to deliver the changes required by the upcoming FCA Consumer Duty regulation.

C.7. Any other information

C.7.1. Stress testing and sensitivity analysis

HIC uses stress and scenario testing to assess the robustness of its business model, business plan and capital to a range of potential threats. This allows HIC to better understand its vulnerabilities and identify potential actions it could take under those scenarios to safeguard the business.

HIC uses a variety of methods to undertake such analysis, as follows:

- Stress tests assess the impact on the business of a change in an individual factor (e.g. standalone/individual basis stresses);
- Scenario tests assess the impact of a change in the overall operating environment resulting from a number of factors or a particular event;
- Reverse stress testing assesses scenarios and circumstances that would render the business model unviable. HIC defines unviability as when the business is no longer willing or able to write premium or at the point when crystallising risks cause the market to lose confidence in the business and, therefore, the projected business plan targets cannot be met. This will not necessarily be the point where the business runs out of capital entirely; and
- High level, forward-looking scenarios consider the impact of events on a multi-year basis (e.g. from 2023 to 2025). These are typically based on less severe scenarios than are used for stress and scenario testing including an 'expected' scenario (i.e. in which there are no positive or negative shocks to the market).

HIC has a defined approach to the development of scenarios, with the Group Risk team co-ordinating the aggregate stress testing process leveraging work performed across the wider business process. They work closely with business risk owners and subject matter experts to identify scenarios and assess their impact and likelihood. Assumptions, controls, potential mitigating actions and potential future management actions that could be taken in response to each scenario are also considered. HIC uses external models and internal insight to inform the estimated losses considered in each scenario, allowing HIC to reflect emerging trends such as changing weather patterns and updated economic forecasts. The potential impacts of climate change on the frequency and severity of events is considered and reflected in the models used. HIC closely monitors its exposure to allow prompt action to be taken, for example if policy wordings should be amended.

The HIC Risk Committee oversees the stress and scenario testing programme. It approves the aggregate scenarios to be tested and considers the outputs of the stress tests, together with any recommendations and actions. It may also request further stress testing or re-runs.

The scenarios test the key risk exposures faced by HIC and are based on internal and external events. Insurance risk is the most material risk to the business and so is a key area of focus for stress and scenario testing. For 2022, the following scenarios were considered:

- Economic downturn;
- Persistent high global inflation;
- Ransomware cyber-attack;
- Multiple catastrophe events and reinsurance default; and
- Deterioration in casualty reserves and reinsurance default (reverse stress test).

There were also additional stress tests carried out which focused on HIC's liquidity in a stressed environment.

Management actions that could be taken in response to these events include a cost-benefit assessment to determine whether continuing to write affected lines could be capital efficient, purchasing additional reinsurance to protect against further deteriorations or a policy wordings review. Rate increases are likely to be associated with extreme events which may offset losses to some extent. There is also the option of requesting capital injections from Group.

Sensitivity testing is undertaken to assess the impact of changes to model inputs for each risk category on the overall SCR. Sensitivity testing has been completed on a draft SCR, however as the inputs and SCR have not materially changed, we view these results as a reasonable representation. The inputs for all main risk categories (except operational risk) were stressed to assess the impact of a 10% increase and a 10% decrease in each risk category input on the SCR output. A total of eight tests were performed, the test results are as follows:

Sensitivity Testing Results				
	Risk category	SCR (£000)	Change in SCR (£000)	Change in SCR(%)
Base	Base	164,104	-	-
Overall premium up 10%	Insurance (Premium)	167,161	3,057	1.9
Overall premium down 10%	Insurance (Premium)	161,152	(2,952)	(1.8)
Overall best estimate claims and reinsurance recoverables up 10%	Insurance (Reserve)	168,480	4,376	2.7
Overall best estimate claims and reinsurance recoverables down 10%	Insurance (Reserve)	159,820	(4,284)	(2.6)
Intermediary counterparty default up 10%	Credit	164,379	275	0.2
Intermediary counterparty default down 10%	Credit	163,832	(272)	(0.2)
Cash + Bonds + Equities up 10%	Market	164,380	276	0.2
Cash + Bonds + Equities down 10%	Market	162,095	(2,009)	(1.2)

Table 20

From the table, the stresses of the inputs for all categories resulted in small changes in the SCR. These numbers do not assume any future management actions, although there are a wide variety available to HIC that would be considered depending on the wider situational context.

C.7.2. Exposure arising from off-balance sheet positions and/ or Special Purpose Vehicles (SPVs)

HIC does not currently make use of SPVs and holds no material off-balance sheet exposures.

C.7.3. Other material information regarding the risk profile of the business

All material information relating to HIC's risk profile has been disclosed in Sections C.1 to C.7 of this document. For further information on HIC's risk profile please see the 2022 Annual Report and Financial Statements Note 3, Management of Risk.

D. Valuation for solvency purposes

The Solvency II basis of valuation for assets and liabilities other than technical provisions are valued at fair value unless a specific rule requires otherwise. Fair value is what would be received if we sold an asset or paid to settle a liability in an arm's length transaction between willing parties. This is equivalent to the UK-adopted international accounting standards ("IFRS") which is used in the statutory financial statements and therefore the majority of assets and liabilities are held at the same value on the IFRS and SII balance sheets.

Under the SII rules, certain assets and liabilities are categorised differently from their classification under IFRS. Presentation adjustments therefore align the IFRS balance sheet to the prescribed format of the SII balance sheet. Further information on the SII presentation adjustments is included below.

D.1. Assets

D.1.1. Value of assets on a Solvency II basis and details of Solvency II basis of valuation

Table 21 provides an analysis of HIC's total assets on a Solvency II basis compared to the amounts shown in the statutory financial statements as at 31 December 2022.

Asset valuation comparison (£000)			
	Solvency II	IFRS	Difference
Deferred acquisition costs (DAC)	-	63,450	(63,450)
Tangible assets	-	-	-
Deferred taxation		1,395	(1,395)
Bonds			
Government bonds	52,939	52,889	50
Corporate bonds	253,456	249,848	3,608
Collective investment undertakings	47,125	47,125	-
Derivatives	-	-	-
Reinsurance recoverables	389,876	536,270	(146,394)
Insurance and intermediaries receivables	13,524	180,426	(166,902)
Reinsurance receivables	-	74,336	(74,336)
Receivables (trade, not insurance)	1,322	4,981	(3,659)
Cash and cash equivalents	34,858	39,466	(4,608)
Total assets	793,100	1,250,186	(457,086)

Table 21

There were no changes to the recognition and valuation bases used for assets compared to the prior year, consistent with Guideline 6 EIOPA Guidelines on Reporting and Public Disclosure. Further details of the assets and explanations for material differences between Solvency II and financial statement valuation basis are set out below:

Deferred Acquisition Costs (DAC)

Under IFRS, commissions and other direct and indirect costs that vary with, and are related to, securing new contracts and renewing existing contracts are capitalised as DAC. DAC is not recognised as an asset in the Solvency II balance sheet. Cash flows relating to acquisition costs, attached to future premiums, are included in the Solvency II technical provisions (further details provided in Section D.2.).

Deferred taxation

The deferred tax balances in the SII balance sheet are recognised on the same basis as under IFRS and are calculated using the balance sheet liability method and have been provided for on the basis of the expected realisation/settlement of the carrying amount of assets and liabilities. SII deferred tax assets are only permitted to be offset against deferred tax liabilities if it is considered appropriate to do so based on IAS 12 principles. The IFRS basis for recognising deferred tax is reported in note 2.9 of the Company's statutory financial statements.

Additional deferred tax is calculated on the differences between the value of assets and liabilities on a Solvency II basis and the value of those same assets and liabilities on the IFRS balance sheet on an undiscounted basis.

The composition of the Solvency II deferred tax balance consists of deferred tax assets for deductible timing differences, unused tax losses and credits which are setoff against deferred tax liabilities for taxable timing differences. For the current year, the SII net deferred tax position is a liability and so it has been included in D.3. Other liabilities.

Investment in bonds and collective investment undertakings

Financial assets are initially recognised at fair value. Financial assets are de-recognised when the right to receive cash flows from them expires or where they have been transferred and HIC has also transferred substantially all risks and rewards of ownership.

The levels of the fair value hierarchy defined by the IFRS 13 accounting standard, and consistent with the Solvency II valuation hierarchy in Article 10 of the Solvency II Delegated Regulation, are as follows:

Level 1 - fair values measured using quoted prices (unadjusted) in active markets for identical instruments,

Level 2 - fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data,

Level 3 - fair values measured using valuation techniques for which significant inputs are not based on market observable data.

An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair values of HIC's financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources. The fair value of shares in unit trusts is based on the net asset value of the fund as reported by independent pricing sources or the fund manager.

Included within Level 1 of the fair value hierarchy are certain Government bonds and Treasury bills which are measured based on quoted prices.

Level 2 of the hierarchy contains certain Government Bonds, Government Agencies and Corporate Securities. The fair value of these assets is based on the prices obtained from both investment managers and investment custodians as discussed above. The Company records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and valuations provided by external parties to derive fair value. Quoted prices for Government Agencies and Corporate Securities can be based on a limited number of transactions for those securities and as such the Company considers these instruments to have the characteristics of Level 2 instruments. Also included within Level 2, are units held in traditional long funds and long and short special funds and over the counter derivatives, including event linked future contracts.

Level 3 contains investments in unquoted equity securities which have limited observable inputs on

which to measure fair value. Unquoted equities are carried at cost, which is deemed to be comparable to fair value. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant and no further analysis has been performed.

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

As at 31 December 2022, HIC's investment in bonds is classified as 17% Level 1 and 83% Level 2 whereas collective investment undertakings are 100% Level 2.

Investment in bonds is measured at fair value under both IFRS and Solvency II. However, the classification of interest accrued is different under IFRS and Solvency II. Accrued interest is classified as receivables (trade, not insurance) under IFRS but is considered a component of the bond valuation under Solvency II.

There are no differences in the valuation bases between IFRS and Solvency II for collective investment undertakings.

Derivatives

There are no differences in the valuation bases between IFRS and Solvency II for derivatives.

Reinsurance recoverables

For Solvency II, reinsurance recoverables are a component of Technical Provisions. Under IFRS, the benefits to which HIC is entitled under outwards reinsurance contracts are recognised in two different reinsurance assets: (i) short-term balances due from reinsurers (reinsurance receivables), as noted below, as well as (ii) longer-term receivables that are dependent on the expected claims and benefits arising under reinsured insurance contracts (reinsurance recoverables). Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Under Solvency II, reinsurance recoverables are calculated as the probability-weighted average of discounted future cash flows relating to reinsurance contracts, adjusted for the expected losses due to counterparty default. Counterparty default is calculated by applying a fixed default percentage to reinsurance recoverables.

For Solvency II, reinsurance recoverables are presented net within Technical Provisions. Further details and the differences between the IFRS and Solvency II valuation bases are explained in Section D.2.

Insurance and intermediaries receivables

Insurance and intermediaries receivables are recognised as assets in the IFRS balance sheet whereas under Solvency II all (re)insurance debtors are reclassified to Solvency II technical provisions with the exception of past due amounts at the valuation date. On a look through basis, the internal agency's brokers' past due amounts were assessed as £13,524 thousands at the valuation date. The remainder of all amounts due in respect of insurance and intermediaries receivables were considered in the calculation of Solvency II technical provisions (as described in Section D.2).

Reinsurance receivables

Under IFRS, short-term balances due from reinsurers are recognised as reinsurance receivables. Under Solvency II, receivables related to reinsurance contracts are recognised when they are past due. Reinsurance receivables are considered past due when the amount receivable remains unpaid one business day after the due date. These include amounts past due from reinsurers that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. As the amounts past due are immaterial as at year end, all reinsurance receivables have been considered in the calculation of technical provisions in Section D.2.

Receivables (trade, not insurance)

Receivables (trade, not insurance) include corporation tax and intercompany balances receivable from fellow group companies. Under IFRS, receivables (trade, not insurance) are measured at undiscounted amortised cost, less any adjustment for expected default. Given the short term maturity of these assets this valuation is considered to be a close approximation to fair value on a Solvency II basis.

Under IFRS, Receivables (trade, not insurance) include accrued interest. Although there are no valuation differences between the two regimes, there is a presentational change and the amount of accrued interest is reported as a component of the bonds value under Solvency II as explained in 'Investment in bonds' above.

Cash and cash equivalents

Under IFRS, cash and cash equivalents exclude receivables/payables for securities whereas under SII cash and cash equivalents include such balances. Although there are no valuation differences between the two regimes, there is a presentational change and the amount of receivables/payables for securities is reported as a component of the cash and cash equivalents value under Solvency II. Under IFRS, Receivables (trade, not insurance) include receivables for securities and Payables (trade, not insurance) include payables for securities.

D.2. Technical provisions

D.2.1. Value of technical provisions for each material Solvency II line of business and description of bases, methods and main assumptions used

Solvency II requires the technical provisions to be a best estimate of the current liabilities relating to insurance contracts, plus a risk margin.

The best estimate liabilities are calculated as:

- i) the discounted best estimate of all future cash flows from gross and reinsurance claims, premium and expenses relating to events prior to the valuation date (claims provisions), and
- ii) the discounted best estimate of all future cash flows future gross and reinsurance claims, premium and expenses relating to future exposure arising from policies that the insurer is obligated to at the valuation date including unearned premium and policies that are bound but not incepted ('BBNI') (premium provisions).

Table 22 shows the value of the discounted technical provisions as at 31 December 2022 for HIC's material Solvency II lines of business.

Value of discounted technical provisions (£000)					
	Gross	Outward reinsurance	Net	Risk margin	Technical provisions
General liability	342,470	334,077	8,393	1,188	9,581
Fire and other damage to property	133,766	53,819	79,947	11,321	91,268
Other	13,514	1,980	11,534	1,633	13,167
Total	489,750	389,876	99,874	14,142	114,016

Table 22

At 31 December 2022, the discounted net technical provisions were £114,016 thousands. Overall, between 31 December 2021 and 31 December 2022 there has been a reduction in the discounted net technical provisions (including risk margin) of £8,691 thousands.

The key drivers of the movements in the best estimate technical provisions are given below:

- £24,314 thousands increase in future premium receivables (resulting in a decrease in net technical provisions) driven by a £13,856 thousands increase in gross premium due, due to slower payments from intermediaries;
- £17,743 thousands increase in net claims reserves, inclusive of a reduction in the risk of reinsurer default or dispute, as the collection of reinsurance recoveries related to COVID-19 losses is paid, more than offsetting a £54,107 thousands reduction in gross claim reserves;
- £7,611 thousands increase in net expenses, driven by an increase in future commissions; and
- £9,853 thousands increase in the discounting (resulting in a decrease in net technical provisions) due to increases in yields over the year.

Description of bases, methods and main assumptions used

Best estimate liabilities

The best estimate contains no margins for prudence or optimism and is intended to represent the mean of the aggregate distribution of claims reserves. Gross and reinsurance cash flows are estimated separately for premium and claims and these are used to calculate net results.

The most appropriate level of granularity is used when producing the reserve estimates, by categorising risks into homogeneous risk groupings. The risk groupings are determined by the Reserving team after

examination of the characteristics of the business being written and after discussions with the Underwriting and Claims teams. These groupings are reviewed when the mix of business within a reserving class has changed significantly over time. The reserving class groupings generally mirror internal reporting classes of business.

Ultimate premium and claim estimates, gross of reinsurance, are then calculated using at least the following actuarial projection techniques:

- a) Chain ladder method;
- b) Expected loss ratio (ELR) or Initial expected loss ratio (IELR) method; and
- c) Bornhuetter-Ferguson (BF) method.

The projection method selected for a particular class of business depends on various factors, including the characteristics of the class and the length of the claims development. The chain ladder method based on the historic claims development of incurred claims has typically been used for the older underwriting years. However, the claims experience on the most recent underwriting years is relatively immature and the chain ladder method produces estimates with a relatively higher level of uncertainty for these years. For this reason, the BF or ELR method has typically been used for the more recent underwriting years. The BF method places weight on initial loss expectations and is less volatile to early claims experience. As the underwriting years become more mature, more weighting is placed on the emerging experience and the projection will move over to a chain ladder projection (or blend of the BF and chain ladder methods). This transition will occur quicker on the shorter-tailed classes than the longer-tailed ones.

Where there is limited history of Company experience, consideration has been given to peer benchmark experience from across the Hiscox Group. The selected benchmarks are felt to be similar and relevant to the business written by the Company. The benchmark experience is judgmentally weighted with the Company experience as is felt appropriate based on the relevance of the benchmark and the volume and stability of the Company experience.

In addition to this, information on new or potentially material claims which are not included in the current incurred position is provided by the Claims team. The Reserving team reviews this information, and where appropriate, will incorporate it into the analysis.

For large and complex events that lead to an accumulation of losses, an exposure assessment is made by the underwriting and claims teams, with a view to estimating the ultimate claims cost for that event. As losses develop, these assessments are reviewed and updated through a process coordinated by the claims team, with input by the underwriting and reserving teams, known as the 'Large Loss Process'. This process has been used to estimate COVID-19 related losses and losses arising from the December 2022 freeze event.

Reinsurance recoveries for each reserving class and underwriting year have been estimated by applying expected external and internal recovery rates to the gross IBNR estimates and adding known recoveries to date. These recovery rates are based on a review of the reinsurance programmes purchased, historical recovery rates and for classes with quota share protection, the quota share cessions are applied to estimated recoveries.

Events not in data (ENID) are potential events which are not adequately contained within HIC's historical claims experience. HIC is required to include an allowance for these within the Technical Provision calculations, such that the mean technical provisions represent the probability-weighted average of all future cash flows. The current basis for the estimation of ENIDs adopts an approach known as the Lloyd's approximation method. In general terms, the calculation of the uplift, or the level of ENID, is linked to the level of uncertainty in any particular class of business.

There are no guarantees or options that materially affect the calculation of Technical Provisions. Any relevant guarantees would be identified through discussions with underwriters and the impact of guarantees would be valued on a best estimate basis.

Risk margin

The HIC risk margin is calculated using a cost of capital approach which involves calculating the cost of holding the regulatory capital requirement implied by the Standard Formula capital assessment model at each future time period based on a run-off approach. The amounts are then discounted back to the

current time period. This regulatory capital requirement calculation excludes new business and market risk. The cost of capital for Solvency II firms is currently set at 6%.

Assumptions

Assumptions and parameters are set by members of the Reserving team with the relevant knowledge and understanding, and with adequate experience. Assumptions are set consistently across the Group and where this is not possible, the differences are understood.

Where sufficient, quality data is not available, benchmark information is overlaid with expert judgement to determine suitable assumptions. The input of expert judgement allows for specific knowledge and experience to be utilised.

All assumptions and parameters are subject to regular review to ensure that they are appropriate for their intended purpose. Sensitivity testing of key assumptions is carried out to identify key areas of uncertainty.

Validation of the different assumptions is carried out at the reserving class level. The frequency of the validation takes account of the materiality of the assumption. Many assumptions are validated quarterly, while other assumptions are validated annually with quarterly monitoring.

The key assumptions are listed below along with some of the key measures considered when setting them:

- Initial Expected Loss Ratio (IELR) - selected IELRs are determined using historical experience, rate change indices and benchmark information;
- Premium and claims development patterns;
- Tail development;
- Reinsurance recovery rates - details of reinsurance programme, historical recoveries;
- Reinsurance payment lags - discussions with the Reinsurance team and based on historical claims experience;
- BBNI premium - business written prior to but incepting after the valuation date;
- Events not in data (ENID) loadings - uplift factors are applied to the reserves for each reserving class based on the Lloyds approximation for ENIDs methodology. The uplift is linked to the level of uncertainty in the reserves.
- Expense forecast - estimate of the future expenses required to fully run off all the liability cash flows;
- Underwriting year expense allocation;
- Counterparty default percentages; and
- Recovery in default.

Between the 2021 and 2022 valuations, a new platform has been implemented for calculating Technical Provisions. While the underlying methodology is largely the same, there have been some relatively small changes in assumptions applied in 2022 compared to the previous period. The impacts of the changes have been quantified as if they had been applied at the prior year end and can be summarised as follows:

- The approach to Unallocated Loss Adjustment Expenses (ULAE) has changed to apply a consistent uplift factor to the SII claims liabilities as is applied on an IFRS basis. This has the impact of increasing the technical provisions and the uplift factor is also applied to claims liabilities arising on unearned business. At 31 December 2021, this would have led to a £2.1m increase in net technical provisions; and
- The ENID methodology has changed from a general low/medium/high uplift factor, to using class specific parameters derived using the Lloyds approximation to ENIDs approach. The impact of making this change at 31 December 2021 would have been a £0.2m reduction in net technical provisions.

D.2.2. Description of the level of uncertainty associated with the value of the technical provisions

The estimates shown in this report reflect all available data and information available at the valuation date. Despite this, the actual cost of settling future claims is uncertain as it depends on events yet to occur. These could be different from the estimates reported above, and possibly materially so.

The most significant drivers of this uncertainty are highlighted below:

a) Inflation

Following a prolonged period of low inflation, the pandemic and ensuing supply chain disruptions saw levels begin to rise. The subsequent conflict in Ukraine has further exacerbated this effect, leading to the highest inflationary levels seen in several decades. In addition, forecasted inflation has shown volatility as forecasters struggle to keep up with a fast moving dynamic situation with multiple global factors. Rising inflation impacts both the expected settlement cost of existing claims, as well as the expected profitability of unearned and unaccepted business. The technical provisions include an allowance for high inflation in both these aspects, but changes in the duration or severity of the inflation spike could affect the ultimate cost of claim settlement.

b) COVID-19

The COVID-19 pandemic led to increased short-term uncertainty for HIC due to a large number of claims related to business interruption insurance. While the majority of these claims are now settled, there is ongoing risk related to legal cases, involving insurers other than Hiscox, in respect of various aspects of business interruption claims. While none of these involve Hiscox directly, they may result in changes in our assumptions around claims settlement and could lead to a need to revisit closed claims.

c) Climate Change

Climate risk poses an evolving, persistent and long-term risk which needs to be reflected appropriately in underwriting and reinsurance strategy. The short-term impacts for HIC relate to physical risk, particularly exposure to weather events. Over 2022, HIC has seen an increase in claims related to both a hot and dry summer (more subsidence notifications) and also cold winters (mid-December freeze event). The long-tailed nature of the former, and late emergence of the latter increase the level of uncertainty in the reserves compared to years where these events have not happened. This is particularly true on a net basis because the main line of business impacted is household which does not benefit from any quota share reinsurance programmes.

d) Initial Expected Loss Ratio selection

Initial Expected Loss Ratios (IELRs) for each class of business have been selected by analysing historical performance and expected changes in premium rates. The nature of the IELR estimates, which incorporate a large degree of expert judgement, means that there is a degree of uncertainty surrounding their values, particularly where significant changes have been made to the underwriting. The IELR is a key driver of HIC's technical provision estimates for the most recent underwriting years.

e) Growing accounts

Classes which are increasing in size can be subject to increased uncertainty. If growth is driven by a change in the mix of risks written (e.g. different types of risks, new territories, increasing exposure, relaxing terms and conditions) this can increase the uncertainty considerably for a class of business.

f) New classes of business

Where there are new classes of business written, there is a limited amount of historical data on which to base any analysis. For these classes, a blend of Hiscox's limited internal data is used together with external benchmark patterns. There is therefore additional uncertainty surrounding the ultimate outcome for these classes of business.

g) Long-tailed classes of business

Longer-tailed classes are subject to uncertainty arising from a number of different factors; for example, changes in litigation such as judicial reforms. In addition, reporting and settlement delays can mean it may take many years before we can be certain of a final outcome, with any significant changes in results possibly having a material impact on assumptions made on the more recent years of account. Weakening terms and conditions also add additional uncertainty.

h) Unearned exposure

The technical provisions include cash flows associated with unearned exposures. As there is a greater degree of uncertainty attached to the unearned exposure, the estimates for these underwriting years will be subject to additional uncertainty.

i) BBNI exposure

HIC is also required to include an allowance for BBNI exposure within the technical provision calculations. This exposure primarily relates to contracts incepting on 1 January after the valuation date. As these contracts are entirely unearned at the valuation date, there is additional uncertainty attached to this exposure.

j) Events Not In Data loadings

Events Not In Data (ENID) are potential events which are not adequately contained within HIC's historical claims experience. HIC is required to include an allowance for these within the Technical Provision calculations, such that the mean technical provisions represent the probability-weighted average of all future cash flows. By definition, there is little data available to base the analysis on. Loadings and classifications remain highly subjective with a high level of actuarial judgement employed.

k) Future expenses

Future administration expenses are based on historical levels of expenses and a projected future expense inflation rate to calculate an expense provision estimate to fully run off the entirety of future cash flows within the technical provisions. Actual expenses could be materially different to those estimated within the expense projection.

D.2.3. Explanation of material differences between Solvency II and financial statement bases

The bases, method and assumptions used in the valuation of technical provision under Solvency II are consistent with those under IFRS except for the adjustments listed in Table 23.

Conversion from IFRS to Solvency II basis (£000)				
	Total	General liability	Fire and other damage to property	Other
IFRS net technical provisions (net of DAC)	329,000	152,322	160,221	16,457
Unearned premium reserve (UPR)	(121,207)	(38,829)	(77,225)	(5,153)
Removal of DAC	(4,230)	(15,017)	9,584	1,203
Future premium incepted	(172,042)	(109,449)	(58,694)	(3,899)
Elimination of margin for prudence	(13,095)	(10,799)	(1,817)	(479)
Future premium on unaccepted business	(12,034)	(6,848)	(5,163)	(23)
Net future claim cost (unearned + unaccepted)	62,045	16,327	42,535	3,183
Additional expenses not included under IFRS	38,864	23,457	14,523	884
Total ENID (margin for Events Not In Data)	5,448	2,763	2,327	358
Reinsurance bad debt adjustment	479	408	68	3
Discounting	(13,354)	(5,942)	(6,412)	(1,000)
Risk margin	14,142	1,188	11,321	1,633
Solvency II net technical provisions	114,016	9,581	91,268	13,167

Table 23 (reconciliation of technical provisions on a net basis)

Notes to Table 23:

- *Unearned premium reserve (UPR)* - Solvency II basis allows for the recognition of profits on unearned incepted business by allowing for the expected claims (captured in net future claim cost (unearned + unaccepted) on the IFRS unearned premium reserve;
- *Removal of DAC* - Solvency II basis considers all future cash flows to determine the estimate of future liabilities, therefore DAC is excluded as it is not considered a future cash flow;

- *Future premium incepted* - Solvency II basis considers all future cash flows, therefore allows for the future premium due from incepted business;
- *Elimination of margin for prudence* - Solvency II technical provisions are calculated on a best-estimate basis and any margin held within the IFRS reserves is removed (e.g. the management margins in the booked reserves);
- *Future premium on unaccepted business* - Solvency II basis allows for the future premium on the business that is unaccepted but legally bound at the valuation date as well as the corresponding unaccepted claims (captured in net future claim cost (unearned + unaccepted));
- *Net future claim cost (unearned + unaccepted)* - Solvency II basis captures the claims on unearned incepted business and unaccepted but legally bound business at the valuation date;
- *Additional expenses not included under IFRS* - Solvency II basis makes an allowance for future expenses required to fully run off all future liabilities;
- *Total ENID* - ENIDs are events or circumstances that are not reasonably foreseeable (i.e. with low probability of occurrence) and are not contained in historical data;
- *Reinsurance bad debt adjustment* - this is an allowance made for non-recovery of reinsurance recoverables
- *Discounting* - Solvency II basis makes an allowance for future investment income (discounting). This is determined by calculating the present value of the future cash flows using a defined yield curve.
- *Risk margin* - this is an allowance for the amount that insurers and/or reinsurers would require over and above the best estimate liabilities in order to take over and meet the insurance obligations over the lifetime of the policies (i.e. the amount required to transfer liability to a third party).

D.2.4. Recoverables from reinsurance contracts and Special Purpose Vehicles (SPVs)

Best estimate reinsurance recoverables and costs on a Solvency II basis are calculated as part of HIC's best estimate reserving process. Reinsurance recoverables and costs are based on known amounts, plus projections based on gross IBNR and future premium estimates, and take account of expected losses due to counterparty default. HIC does not utilise any SPVs.

D.2.5. Validation of Solvency II technical provisions

The Solvency II technical provisions reconcile back to the IFRS balance sheet, with known adjustments made to the IFRS position. A number of the adjustments (for example, DAC) remove whole financial statement line items or account balances but others require further calculation. Other than the reconciliation, additional validations include:

- Detailed senior actuarial review of assumptions and movements;
- Documentation and rationalisation of movements with each calculation of technical provisions. This ensures continual back-testing of the technical provisions and refinements to assumptions as necessary;
- Comparison of Solvency II adjustments to alternative methods where subjectivity is involved, e.g. ENID loadings;
- Actuarial function holder opinion on the calculation of technical provisions;
- Group Chief Actuary oversight and review of outputs; and
- Reviews in relation to the approach taken by other entities within the Hiscox Group.

D.3. Other liabilities

D.3.1. Value of liabilities on a Solvency II basis and details of Solvency II basis of valuation

Table 24 provides an analysis of HIC's total liabilities on a Solvency II basis compared to the amounts shown in the IFRS financial statements as at 31 December 2022.

Liability valuation comparison (£000)			
	Solvency II	IFRS	Difference
Technical provisions - non-life (excluding health)	503,892	861,040	(357,148)
<i>Best Estimate</i>	489,750	-	
<i>Risk margin</i>	14,142	-	
Provisions other than technical provisions	6,869	6,869	-
Deferred tax liabilities	8,697	-	8,697
Insurance and intermediaries payables	-	8,063	(8,063)
Reinsurance payables	-	61,133	(61,133)
Payables (trade, not insurance)	57,520	62,129	(4,609)
Any other liabilities, not elsewhere shown	-	67,679	(67,679)
Total liabilities	576,978	1,066,913	(489,935)

Table 24

There were no changes to the recognition and valuation bases used for other liabilities compared to the prior year. Further details of the liabilities and explanations for material differences between Solvency II and financial statement valuation basis are set out below:

Technical provisions - non-life (excluding health)

The basis for the valuation of technical provisions for solvency purposes and differences between the IFRS and Solvency II is described in Section D.2.

Provisions other than technical provisions

The valuation of provisions other than technical provisions under Solvency II follows fair value measurement principles. As IFRS also follows the fair value measurement principle, there is no difference between these regimes in the HIC balance sheet.

Deferred tax liabilities

As noted in Section D.1.1, the valuation of deferred tax liabilities is determined on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with Solvency II, and the values ascribed to assets and liabilities as recognised for tax purposes. The deferred tax balances in the SII balance sheet are recognised on the same basis as under IFRS to the extent permissible under IAS 12.

Temporary differences between the Solvency II value of the assets and liabilities and their corresponding tax base as defined in IAS 12. Differences in the deferred tax balances also arise where balance sheet items have different carrying amounts under SII and IFRS.

As at 31 December 2022, HIC has recognised an IFRS deferred tax asset in respect of carried forward losses, on the grounds that taxable profits are projected to be available for offset in the next 12-24 months. This asset has been offset against deferred tax liabilities in the SII balance sheet which is considered appropriate based on IAS 12 principles.

Insurance and intermediaries payables

Under IFRS, payables related to insurance contracts are measured at initial recognition value. This amount is what they are expected to be settled at and therefore represents the fair value under a Solvency II basis. All insurance and intermediaries payables have been considered in the calculation of the technical provision in Section D.2 because no amounts are considered past due.

There are no differences in the valuation bases between IFRS and Solvency II.

Reinsurance payables

Payables related to reinsurance contracts are recognised when past due. At the valuation date there are no amounts past and all payables have been considered in the calculation of the technical provision in Section D.2.

There are no differences in the valuation bases between IFRS and Solvency II.

Payables (trade, not insurance)

Payables (trade, not insurance) relate to payables to an agency, intercompany payables and insurance premium tax payable.

Under IFRS, Payables (trade, not insurance) are valued at undiscounted amortised cost which approximates fair value. Under Solvency II, they are valued on a present market value basis, to which a discount is applied. Due to the short-term duration of the liabilities, there is no difference between the Solvency II and the IFRS valuation.

Any other liabilities, not elsewhere shown

Under IFRS, "any other liabilities, not elsewhere shown" relate to DAC payable in relation to reinsurance ceded. DAC is not recognised in the Solvency II balance sheet, therefore resulting in the difference between IFRS and Solvency II.

D.4. Alternative methods of valuation

HIC does not value any assets or liabilities using alternative methods of valuation as outlined in Articles 10(5) - (7) of the Solvency II Delegated Regulation.

D.5. Any other information

Other material information regarding the valuation of assets and liabilities for solvency purposes

All material information relating to HIC's valuation for solvency purposes has been disclosed in sub-Sections D.1 to D.4 of this document.

E. Capital management

E.1. Own funds

E.1.1. Objectives, policies and processes employed by HIC for managing its own funds

Decisions on optimal capital levels are an integral part of HIC's business planning and the forward-looking assessment of risk processes which span a three year time horizon.

HIC manages its own funds in order to ensure it holds sufficient capital to meet its regulatory and business requirements.

HIC's assessment of its own capital needs in the ORSA is calculated using the HICM. The HICM has been comprehensively validated and tested for appropriateness, providing comfort for its use as HIC's own view of capital.

The risk appetite for available capital in excess of the Solvency II SCR is agreed and signed off by the HIC Board. This represents an agreed percentage above the SCR with agreed tolerance levels above and below the target for available capital.

The value of own funds and the SCR is reported quarterly to the Board and to the PRA as part of Solvency II quarterly reporting. In case of a shortfall in own funds compared to the solvency risk appetite, Management may choose to take action dependent on the extent of the shortfall and the expected timeframe that HIC would remain below appetite. Management's response to a potential shortfall is set out in the HIC Recovery and Resolution Plan approved by the Board in July 2022. Potential actions set out in the plan can take a number of forms including but not limited to:

- a) Reduction in or cancellation of planned dividends;
- b) Seeking an injection of new capital from the Hiscox Group; and
- c) Actions to reduce HIC's risk profile and therefore its capital requirement.

Where available capital persistently exceeds the upper tolerance the HIC CFO may establish, and recommend to the HIC Board, an appropriate dividend payment.

There have been no changes in the policies and processes employed by HIC for managing its own funds over the reporting period.

E.1.2. Structure, amount and quality of own funds at the end of the reporting period and analysis of changes over the reporting period

Table 25 provides an analysis of basic own funds by tier compared to the prior year.

Basic own funds by tier (£000)		
	Total Tier 1 Unrestricted 2022	Total Tier 1 Unrestricted 2021
Ordinary share capital (gross of own shares)	95,000	95,000
Share premium account related to ordinary share capital	215	215
Reconciliation reserve	120,907	142,330
Total excess of assets over liabilities (EAL)	216,122	237,545
Total basic own funds after deductions	216,122	237,545
Available and eligible own funds		
Total available and eligible own funds to meet the SCR	216,122	237,545
Total available and eligible own funds to meet the MCR	216,122	237,545

Table 25

All own funds comprises ordinary share capital, share premium on ordinary share capital and the reconciliation reserve which comes under the definition of unrestricted Tier 1 capital under Solvency II. A number of stress and scenario tests are used to enable HIC to understand the volatility of the reconciliation reserve in relation to the asset-liability management of the Company in order to manage its capital more efficiently.

The Board declared a £20,000 thousands interim dividend for the year ended 31 December 2022 and paid in 2022 (2021: £nil). No final dividend has been declared for the year ended 31 December 2022 (2021: £nil).

Table 26 provides the calculation of the reconciliation reserve.

Reconciliation reserve (£000)		
	2022	2021
Total Solvency II assets (Section D.1.1)	793,100	889,765
Total Solvency II liabilities (Section D.3.1)	(576,978)	(652,220)
Solvency II Excess of assets over liabilities	216,122	237,545
Ordinary share capital	(95,000)	(95,000)
Share premium	(215)	(215)
Foreseeable dividends, distributions and charges	-	-
Reconciliation reserve	120,907	142,330

Table 26

Table 27 shows the movement in the reconciliation reserve during the period.

Reconciliation reserve (2021 versus 2022 £000)	
	Movement
Reconciliation reserve as at 31 December 2021	142,330
IFRS profit for the year	653
Dividends paid	(20,000)
Changes in differences on valuations of non-technical assets	-
Changes in differences on valuations of technical provisions	(178)
Changes in differences on valuations of non-technical liabilities	(1,898)
Reconciliation reserve as at 31 December 2022	120,907

Table 27

The overall movement in the reconciliation reserve between 2021 and 2022 reflects movements in valuation differences on assets/ liabilities and technical provisions.

E.1.3. The eligible amount of own funds to cover the Solvency Capital Requirement (SCR), classified by tiers

As all own funds items are unrestricted Tier 1 own funds items there are no eligibility restrictions and therefore all available own funds are eligible to cover the SCR, as shown in Table 28.

Eligible own funds to cover the SCR (£000)		
	2022	2021
Total eligible own funds to meet the SCR	216,122	237,545

Table 28

E.1.4. The eligible amount of own funds to cover the Minimum Capital Requirement (MCR), classified by tiers

As all own funds items are unrestricted Tier 1 own funds items, all own funds that are eligible to cover the SCR are also eligible to cover the MCR, as shown in Table 29.

Eligible own funds to cover the MCR (£000)		
	2022	2021
Total eligible own funds to meet the MCR	216,122	237,545

Table 29

E.1.5. Explanation of any material differences between equity as shown in HIC's financial statements and the excess of assets over liabilities (EAL) as calculated for solvency purposes

Differences between HIC's shareholders' equity per the financial statements and the Solvency II EAL per the Solvency II balance sheet relate to valuation differences as shown in Table 30 and explained in sub-Sections D.1 to D.3 this document.

Material differences between equity in the financial statements and EAL (£000)	
	2022
Shareholders' equity as shown in the financial statements	183,273
Solvency II valuation adjustments to assets	(310,692)
Solvency II valuation adjustments to technical provisions	210,754
Solvency II valuation adjustments to other liabilities	132,787
Solvency II EAL	216,122

Table 30

E.1.6. Own fund items included under transitional arrangements under Solvency II

All own funds items are unrestricted Tier 1 own funds and no other items are included in own funds under transitional arrangements under Solvency II.

E.1.7. Ancillary own funds

HIC has not applied for PRA approval of any Ancillary Own Funds items and therefore no such items are included within own funds.

E.1.8. Own funds restrictions

HIC does not have any ring-fenced funds and has not identified any other restrictions which need to be made to own funds as a result of availability or transferability of own funds within HIC.

E.2. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

E.2.1. SCR and MCR at the end of the reporting period

HIC's standard formula SCR and MCR for the year ended 31 December 2021 and 2022 are shown in Table 31.

HIC's SCR and MCR (£000)		
	2022	2021
SCR	164,642	155,481
MCR	41,160	38,870

Table 31

These amounts are subject to supervisory assessment by the PRA.

E.2.2. Standard formula SCR split by modules

Table 32 shows HIC's SCR for the year ended 31 December 2021 and 2022, split by risk module.

HIC's SCR split by risk module (£000)		
	2022	2021
Insurance (underwriting risk and reserve) risk	141,046	126,664
Credit risk	13,388	13,878
Market risk	25,270	30,198
Undiversified total SCR	179,704	170,740
Diversification benefit	(23,015)	(25,729)
Basic SCR	156,689	145,011
Operational risk	16,650	17,560
Loss-absorbing capacity of deferred taxes	(8,697)	(7,090)
SCR	164,642	155,481

Table 32

HIC does not use an internal model to calculate any components of its SCR.

E.2.3. Standard formula simplifications

HIC does not use simplified calculations for any risk modules or sub-modules of the standard formula.

E.2.4. Use of undertaking specific parameters

No undertaking-specific parameters were used in the calculation of HIC's SCR.

E.2.5. Capital add-ons

HIC has no capital add-ons imposed on the SCR by the PRA.

E.2.6. Information on the inputs used by HIC to calculate the MCR

As a non-life insurer HIC determines the MCR in accordance with the Minimum Capital Requirement Part of the PRA Rulebook for Solvency II Firms and Articles 248 - 250 and 253 of the Solvency II Delegated Regulation. This involves calculating a risk charge based on HIC's net written premium over the 12 months preceding the valuation date and net technical provisions as at the valuation date, by Solvency II line of business. The sum of the charges by line of business determine an initial minimum capital requirement. The MCR is constrained to be within 25% to 45% of the SCR; but no lower than an absolute minimum capital requirement of 4,000 thousand Euro. [see QRT 28.01.01]

E.2.7. Loss absorbing capacity of deferred tax

In accordance with Solvency II, the loss absorbing capacity of deferred tax (LACDT), a net deferred tax liability of £8,697 thousands (2021: £7,090 thousands), has been deducted from the SCR.

The LACDT amount has been recognised on the basis of £8,697 thousands being available for utilisation against net deferred tax liabilities on the SII balance sheet and £1,493 thousands arising from the ability to carry-back losses for relief against the previous year's taxable profit.

E.2.8. Material change to the SCR and to the MCR over the reporting period and the reasons for any such change

Table 33 and Table 34 show the movements in the SCR and MCR between 31 December 2021 and 31 December 2022 as well as movements in the constituent components of the SCR.

Movements in SCR and MCR over the reporting period				
	2022 £000	2021 £000	Movement £000	Movement (%)
SCR	164,642	155,481	9,161	6
MCR	41,160	38,870	2,290	6

Table 33

Movements in components of the SCR over the reporting period				
	2022 £000	2021 £000	Movement £000	Movement (%)
Insurance (underwriting risk and reserve risk) risk	141,046	126,664	14,382	11
Credit risk	13,388	13,878	(490)	(4)
Market risk	25,270	30,198	(4,928)	(16)
Undiversified total SCR	179,704	170,740	8,964	5
Diversification benefit	(23,015)	(25,729)	2,714	(11)
Basic SCR	156,689	145,011	11,678	8
Operational risk	16,650	17,560	(910)	(5)
Loss-absorbing capacity of deferred taxes	(8,697)	(7,090)	(1,607)	23
SCR	164,642	155,481	9,161	6

Table 34

The SCR figures reported at year-end 2022 are with respect to HIC's financial position and risk profile as at 31 December 2022. The following sections highlight the main drivers of movement in the SCR since year-end 2021.

Insurance risk

The 11% increase in Insurance risk during 2022 represents the most material increase since prior year. The increase in HIC's insurance risk requirement is primarily driven by an increase in catastrophe risk due to changes in its reinsurance programme.

Market risk

The pre-diversified SCR for market risk has decreased by 16% due to the reduction in equity risk from holding less Collective Investment Undertakings. This more than offsets the increased interest rate risk resulting from the strengthening of yield curves over the year.

Diversification benefit

During 2022, there has been a 11% decrease in Diversification benefit arising mainly from Market and Non-life underwriting risks.

Loss absorbing capacity of deferred taxes (LACDT)

LACDT has increased by 23% over the period, largely due to the increase in the blended tax rate increasing from 19% at 31 December 2021 to 23.5% at 31 December 2022.

MCR

The MCR has increased by 5% during the year, consistent with the increase in the SCR over the period. The MCR floor is calculated as 25% of the SCR and the MCR is capped at 45% of the SCR.

E.3. Use of the duration based equity risk sub-module in the calculation of the SCR

HIC does not use the duration-based equity risk sub-module in the calculation of the SCR.

E.4. Differences between the standard formula and any internal model used

HIC does not use a full or partial internal model to calculate the SCR.

E.5. Non-compliance with the MCR and non-compliance with the SCR

There were no instances of non-compliance with the SCR or MCR during the reporting period.

E.6. Any other information

All material information relating to HIC's capital management has been disclosed in Sections E.1 to E.5 above.

Appendix A: Directors' statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the insurer has continued to comply subsequently and will continue to do so in future.

Signed on behalf of the Board of Directors on 29 March 2023 by:

A handwritten signature in black ink, appearing to read 'Thomas Shewry', with a stylized flourish at the end.

Thomas Shewry

Director

Appendix B: Independent auditor's report to the Directors of Hiscox Insurance Company Limited

Report of the external independent auditors to the Directors of Hiscox Insurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2022:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2022, ('the **Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('the **Templates subject to audit**').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02 and S.19.01.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the **Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2022 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's going concern assessment which considered the Company's capital, solvency and liquidity positions;
- Validating the analysis to supporting documentation and assessing management's scenarios whereby they considered plausible downside sensitivities;

- Performing further sensitivity analysis on management's assessment and assessing the impact on the Company's capital, solvency and liquidity positions; and
- Assessing the disclosures made by management in respect of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as the PRA Rulebook applicable to Solvency II firms and the Solvency II Regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and the potential for management bias in significant accounting estimates, such as the Solvency II technical provisions. Audit procedures performed included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Company's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Risk Committee and Audit Committee;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Testing, and challenging where appropriate, the assumptions and judgements made by management in establishing significant accounting estimates, particularly in relation to the valuation of the Solvency II technical provisions;
- Identifying and testing journal entries and data integrity including the completeness and accuracy of journals listings, in particular journal entries posted with unusual account combinations or posted by senior management;
- Testing transactions entered into outside of the normal course of the Company's business; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is stylized, with a large 'P' and 'C'.

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside, London SE1 2RT

29 March 2023

Appendix C: Glossary of Terms

Abbreviation	Details of abbreviations
BBNI	Bound But Not Incepted
BCP	Business Continuity Plan
BF	Bornhuetter-Ferguson
BI	Business Interruption
CDP	Carbon Disclosure Project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Company	Hiscox Insurance Company Limited
COO	Chief Operating Officer
CRO	Chief Risk Officer
CUO	Chief Underwriting Officer
DAC	Deferred Acquisition Costs
DIG	Divisional Investment Group
DJSI	Dow Jones Sustainability Indices
EAL	Excess of Assets over Liabilities
EEA	European Economic Area
EEL	Events Excess of Loss
EIOPA	European Insurance and Occupational Pensions Authority
ELR	Expected Loss Ratio
ENID	Events Not In Data
EOW	Escape Of Water
EPIFP	Expected Profits Included in Premiums
ESG	Environmental, Social and Governance
EU	European Union
EUR	Euro
FCA	Financial Conduct Authority
FTSE	Financial Times Stock Exchange
FX	Foreign exchange
GBP	British Pound / Pound Sterling
GHG	Greenhouse Gas
HIC or the Company	Hiscox Insurance Company Limited
HIC Board or the Board	Board of Directors of Hiscox Insurance Company Limited
HICM	Hiscox Integrated Capital Model
HIG	Hiscox Investment Group
Hiscox Board or Group Board	Board of Directors of Hiscox Ltd
Hiscox Group or the Group	Hiscox Ltd and its group of companies
HSA	Hiscox Société Anonyme
HUGS	Hiscox Underwriting Group Services Limited
HUL	Hiscox Underwriting Limited
IAS	International Accounting Standard
IBNR	Incurred But Not Reported
IELR	Initial Expected Loss Ratio
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISS	Institutional Shareholder Services
IT	Information Technology
MCR	Minimum Capital Requirement
MRT	Material Risk Taker
MSCI	Morgan Stanley Capital International
NAV	Net Asset Value
NED	Non-Executive Director
ORSA	Own Risk and Solvency Assessment
PA	Personal Accident
PDR	Performance and Development Review
PI	Professional Indemnity
PRA	Prudential Regulation Authority

PRI	Principles for Responsible Investment
Property insurance	Fire and other damage to property insurance
PSP	Performance Share Plan
QRTs	Quantitative Reporting Templates
Quota share or QS	Reinsurance agreement where the primary insurer and the reinsurer use a fixed percentage in sharing the amount of premiums and losses
RCR	Risk and Control Register
RCSA	Risk and Control Self-Assessment
ROE	Return on Equity
SII	Solvency II
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SMCR	Senior Managers and Certification Regime
SMF	Senior Management Function
SPVs	Special Purpose Vehicles
TCFD	Taskforce on Climate-Related Financial Disclosure
the Plan	Operating Plan
TP	Technical Provisions
TPL	Third Party Liability
TSR	Total Shareholder Return
UK	United Kingdom
UKLT	UK Leadership Team
ULAE	Unallocated Loss Adjustment Expenses
UPR	Unearned Premium Reserve

Appendix D: QRTs

This Appendix contains the following templates which the Company is required to disclose as part of the SFCR.

QRT S.05.02.01 (Premiums, claims and expenses by country) is not included because the home country (UK) represents 90% or more of the total gross written premium.

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-Life Insurance Claims
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement - for undertakings on standard formula
S.28.01.01	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Hiscox Insurance Company Limited

Solvency and Financial Condition Report

Disclosures

31 December

2022

(Monetary amounts in GBP thousands)

General information

Undertaking name	Hiscox Insurance Company Limited
Undertaking identification code	213800TRZ88MUVRN4K26
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2022
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02
Balance sheet

		Solvency II value
Assets		C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	353,520
R0080	<i>Property (other than for own use)</i>	
R0090	<i>Holdings in related undertakings, including participations</i>	
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	306,396
R0140	<i>Government Bonds</i>	52,939
R0150	<i>Corporate Bonds</i>	253,456
R0160	<i>Structured notes</i>	
R0170	<i>Collateralised securities</i>	
R0180	<i>Collective Investments Undertakings</i>	47,125
R0190	<i>Derivatives</i>	0
R0200	<i>Deposits other than cash equivalents</i>	
R0210	<i>Other investments</i>	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	389,876
R0280	<i>Non-life and health similar to non-life</i>	389,876
R0290	<i>Non-life excluding health</i>	389,876
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	13,524
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	1,322
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	34,858
R0420	Any other assets, not elsewhere shown	
R0500	Total assets	793,100

S.02.01.02
Balance sheet

		Solvency II value
Liabilities		C0010
R0510	Technical provisions - non-life	503,892
R0520	<i>Technical provisions - non-life (excluding health)</i>	503,892
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	489,750
R0550	<i>Risk margin</i>	14,142
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	6,869
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	8,696
R0790	Derivatives	0
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	57,521
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	
R0900	Total liabilities	576,978
R1000	Excess of assets over liabilities	216,122

Premiums, claims and expenses by line of business

[illegible]

Non-Life Technical Provisions

R0340 Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total

Non-Life insurance claims

Total Non-life business

Accident year / underwriting year	Underwriting Year
-----------------------------------	-------------------

	Gross Claims Paid (non-cumulative) (absolute amount)																
	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170				C0180
		Development year										In Current year	Sum of years (cumulative)				
		0	1	2	3	4	5	6	7	8	9	10 & +					
R0100	Prior											68	68	68			
R0160	2013	37,297	83,013	23,676	13,633	5,829	4,772	1,606	2,442	567	-1,605		-1,605	171,231			
R0170	2014	37,645	60,221	22,134	8,707	6,591	5,201	2,208	439	916			916	144,061			
R0180	2015	35,805	85,389	29,808	11,367	5,553	4,127	4,506	2,942				2,942	179,498			
R0190	2016	36,211	94,785	35,434	9,407	11,446	3,486	3,616					3,616	194,385			
R0200	2017	34,747	116,854	39,358	18,451	12,403	3,660						3,660	225,471			
R0210	2018	43,296	75,856	34,153	19,092	11,910							11,910	184,307			
R0220	2019	27,765	99,143	109,397	35,963								35,963	272,268			
R0230	2020	36,642	174,700	93,731									93,731	305,073			
R0240	2021	23,760	76,314										76,314	100,074			
R0250	2022	16,677											16,677	16,677			
R0260												Total	244,192	1,793,113			

Gross Undiscounted Best Estimate Claims Provisions (absolute amount)													
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
Year	Development year										Year end (discounted data)		
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											16,261	15,847
R0160	2013	0	0	0	40,205	28,330	24,850	8,707	5,586	3,585	2,226	2,086	
R0170	2014	0	0	70,762	49,348	36,070	13,189	8,131	6,883	3,716		3,490	
R0180	2015	0	129,265	61,461	43,059	21,113	16,389	9,852	8,142			7,665	
R0190	2016	45,780	125,475	83,605	51,230	40,730	24,565	16,094				14,436	
R0200	2017	123,628	160,170	75,923	53,249	33,796	18,995					17,618	
R0210	2018	138,426	128,171	87,468	57,399	52,650						48,598	
R0220	2019	85,926	288,270	137,047	74,730							70,054	
R0230	2020	193,992	182,256	99,321								92,109	
R0240	2021	105,863	150,753									140,103	
R0250	2022	88,272										81,411	
R0260		Total										493,417	

Own Funds

Ordinary share capital (gross of own shares)
Share premium account related to ordinary share capital
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
Subordinated mutual member accounts
Surplus funds
Preference shares
Share premium account related to preference shares
Reconciliation reserve
Subordinated liabilities
An amount equal to the value of net deferred tax assets
Other own fund items approved by the supervisory authority as basic own funds not specified above

R0230 Deductions for participations in financial and credit institutions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR

Reconcilliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

	63,459
	63,459

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	25,270		
R0020 Counterparty default risk	13,388		
R0030 Life underwriting risk	0		
R0040 Health underwriting risk	0		
R0050 Non-life underwriting risk	141,046		
R0060 Diversification	-23,015		
		USP Key	
R0070 Intangible asset risk	0	For life underwriting risk:	
		1 - Increase in the amount of annuity benefits	
R0100 Basic Solvency Capital Requirement	156,688	9 - None	
		For health underwriting risk:	
Calculation of Solvency Capital Requirement	C0100	1 - Increase in the amount of annuity benefits	
R0130 Operational risk	16,650	2 - Standard deviation for NSLT health premium risk	
R0140 Loss-absorbing capacity of technical provisions	0	3 - Standard deviation for NSLT health gross premium risk	
R0150 Loss-absorbing capacity of deferred taxes	-8,696	4 - Adjustment factor for non-proportional reinsurance	
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0	5 - Standard deviation for NSLT health reserve risk	
R0200 Solvency Capital Requirement excluding capital add-on	164,642	9 - None	
R0210 Capital add-ons already set	0	For non-life underwriting risk:	
R0220 Solvency capital requirement	164,642	4 - Adjustment factor for non-proportional reinsurance	
		6 - Standard deviation for non-life premium risk	
Other information on SCR		7 - Standard deviation for non-life gross premium risk	
R0400 Capital requirement for duration-based equity risk sub-module	0	8 - Standard deviation for non-life reserve risk	
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	0	9 - None	
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds	0		
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440 Diversification effects due to RFF nSCR aggregation for article 304	0		
Approach to tax rate	C0109		
R0590 Approach based on average tax rate	Yes		
Calculation of loss absorbing capacity of deferred taxes	LAC DT		
	C0130		
R0640 LAC DT	-8,696		
R0650 LAC DT justified by reversion of deferred tax liabilities	-8,696		
R0660 LAC DT justified by reference to probable future taxable economic profit	0		
R0670 LAC DT justified by carry back, current year	0		
R0680 LAC DT justified by carry back, future years	0		
R0690 Maximum LAC DT	43,334		

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity**Linear formula component for non-life insurance and reinsurance obligations**R0010 MCR_{NL} Result

C0010

29,150

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
---	---

C0020

C0030

R0020	Medical expense insurance and proportional reinsurance
R0030	Income protection insurance and proportional reinsurance
R0040	Workers' compensation insurance and proportional reinsurance
R0050	Motor vehicle liability insurance and proportional reinsurance
R0060	Other motor insurance and proportional reinsurance
R0070	Marine, aviation and transport insurance and proportional reinsurance
R0080	Fire and other damage to property insurance and proportional reinsurance
R0090	General liability insurance and proportional reinsurance
R0100	Credit and suretyship insurance and proportional reinsurance
R0110	Legal expenses insurance and proportional reinsurance
R0120	Assistance and proportional reinsurance
R0130	Miscellaneous financial loss insurance and proportional reinsurance
R0140	Non-proportional health reinsurance
R0150	Non-proportional casualty reinsurance
R0160	Non-proportional marine, aviation and transport reinsurance
R0170	Non-proportional property reinsurance

0	0
0	0
0	0
5,179	4,941
6,355	5,308
0	0
79,947	134,298
8,393	68,083
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0

Linear formula component for life insurance and reinsurance obligationsR0200 MCR_L Result

C0040

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
---	--

C0050

C0060

R0210	Obligations with profit participation - guaranteed benefits
R0220	Obligations with profit participation - future discretionary benefits
R0230	Index-linked and unit-linked insurance obligations
R0240	Other life (re)insurance and health (re)insurance obligations
R0250	Total capital at risk for all life (re)insurance obligations

Overall MCR calculation

R0300	Linear MCR
R0310	SCR
R0320	MCR cap
R0330	MCR floor
R0340	Combined MCR
R0350	Absolute floor of the MCR
R0400	Minimum Capital Requirement

C0070

29,150
164,642
74,089
41,160
41,160
3,445
41,160