HISCOX

Hiscox Ltd trading statement

Hamilton, Bermuda (8 November 2023) – Hiscox Ltd (LSE:HSX), the international specialist insurer, today issues its trading statement for the first nine months of the year to 30 September 2023.

Highlights:

- Group insurance contract written premiums (ICWP) increased by 6.8% in constant currency to $3,759.4 million (Q3 2022: $3,563.4 million), as the Group continues to deploy capital in London Market and Re & ILS and build scale in Retail to drive profitable growth across the Group.

- Net Group ICWP increased by 11.0%, driven by the acceleration of net growth in Re & ILS to 23.6% and in London Market to 18.1%, reflecting our cycle management and capital deployment strategy to maximise potential earnings.

- Hiscox Retail ICWP of $1,836.4 million (Q3 2022: $1,769.4 million) grew 4.7% in constant currency, driven by continued excellent growth in Europe and continued positive momentum in US DPD. This was partly offset by adopting a disciplined approach to growth in the face of continued rate softening in US cyber in the broker business, and ongoing action to exit non-core underwriting partnerships in the UK. Excluding these factors, the underlying Retail growth is within the 5% to 15% target range. We expect the impact of US cyber to start to moderate in the fourth quarter and result in a pick-up in the overall growth rate as the US broker initiatives start to take effect.

    - US DPD ICWP growth continues to accelerate, up 9.2% in the third quarter from 8.9% and 6.8% in the previous two quarters; on track to deliver the full year 2023 US DPD guidance of growth towards the middle of the 5% to 15% range.
    - Hiscox Retail remains on track to deliver the full year 2023 growth guidance to be in line with the half year trend.

- Hiscox London Market net ICWP increased by 18.1% to $676.7 million (Q3 2022: $572.9 million), a further acceleration from 14.2% at half year, underpinned by strong double-digit growth in marine, energy and specialty and property.

- Hiscox Re & ILS deployed capital in the hard market, delivering net ICWP growth of 23.6%, up from 17.9% at half year, to $438.3 million (Q3 2022: $354.7 million). Hiscox ILS funds have delivered record performance, generating an increasing amount of fee income for the Group.

- Aggregate natural catastrophe losses year to date are within budget despite an active third quarter.

- Investment result gain of $201.7 million (Q3 2022: loss of $293.9 million), representing a positive return of 2.8% year to date (Q3 2022: negative return of 4.2%).

- The Group remains well capitalised and we continue to invest in our business to support profitable growth.

Aki Hussain, Group Chief Executive Officer,
Hiscox Ltd, commented:

"I am pleased we have continued to deliver disciplined profitable growth across the Group. Through a combination of management actions to improve the quality of our portfolios, increased capital deployment in big-ticket and a focus on the quality of growth in Retail, we are in the best position for many years to grow and deliver strong risk-adjusted returns in each of our segments.

As we look forward, market conditions remain positive across the Group and we see plenty of attractive opportunities ahead."

Insurance contract written premiums for the period:

	Insurance contract written premiums to 30 September 2023	Insurance contract written premiums to 30 September 2022	Growth in USD	Growth in constant currency
	US$m	US$m	%	%
Hiscox Retail	**$1,836.4**	$1,769.4	3.8%	4.7%
Hiscox London Market	**$947.5**	$844.2	12.2%	13.6%
Hiscox Re & ILS	**$975.5**	$949.8	2.7%	4.7%
Total	**$3,759.4**	**$3,563.4**	**5.5%**	**6.8%**

Hiscox Retail

Hiscox Retail ICWP increased by 4.7% in constant currency to $1,836.4 million (Q3 2022: $1,769.4 million), or 3.8% in US Dollars. This comprises excellent growth in Europe and a continued improvement in the growth trajectory of US DPD. This positive performance has been offset in the period by our planned exit from non-core underwriting partnerships in the UK, as previously indicated, as well as ongoing cyber-related headwinds in the US broker business. Excluding these factors, the underlying Retail growth is within the 5% to 15% target range. We expect the adverse impact of US cyber to start to moderate in the fourth quarter and result in a pick-up in the overall growth rate as the US broker initiatives start to take effect. Hiscox Retail remains on track to deliver the full year 2023 growth guidance to be in line with the half year trend.

Hiscox Retail, as the Group's less cyclical business, benefitted from an average rate increase of 6%, with rates remaining in aggregate positive across all markets and the most significant re-rating continuing to be in the US.

US DPD delivered 8.3% ICWP growth year-to-date, up from 7.8% at half year and 6.8% in the first quarter, as the management team deployed purposeful investment into direct acquisition marketing spend, re-engaged with partners and increased rates where appropriate. This demonstrates a consistently improving trajectory as the business remains on track to deliver growth towards the middle of the 5% to 15% range in 2023.

Insurance contract written premiums for the period:

	Insurance contract written premiums to 30 September 2023		Insurance contract written premiums to 30 September 2022		Growth in USD	Growth in constant currency
	£m/€m	**US$m**	£m/€m	US$m	%	%
Hiscox Retail						
- Hiscox UK	£482.5	$600.3	£467.4	$593.7	1.1%	3.3%
- Hiscox Europe	€455.3	$491.6	€410.3	$445.5	10.3%	11.1%

- Hiscox USA		$700.1		$693.0	1.0%	1.0%
- Hiscox Asia		$44.4		$37.2	19.4%	17.5%
Hiscox Retail total		**$1,836.4**		**$1,769.4**	**3.8%**	**4.7%**

Hiscox UK

Hiscox UK's ICWP of $600.3 million (Q3 2022: $593.7 million) grew 3.3% on a constant currency basis. The exiting of non-core delegated authority partnerships business is progressing as planned and we expect the impact on top line growth to dissipate by the end of the year.

Our new brand campaign launched in the UK in September and is the start of a global initiative to continue to build the strength of our brand. It is a significant milestone as we look to increase awareness and recognition of Hiscox in both our direct and broker channels. The creative thread running through the work is 'Your story … underwritten by Hiscox', a concept focused on recognising the people and stories behind every policy.

Trading on our e-trade platform is also progressing well since its launch at the end of March. Broker feedback remains extremely positive, and we continue to further enhance the platform's capabilities.

Hiscox Europe

Hiscox Europe continues to be the strongest growing business in the Retail segment, with ICWP of $491.6 million (Q3 2022: $445.5 million) and growth of 11.1% in constant currency. All markets are enjoying strong momentum and we are pleased with the sustainability we see in our European business's multi-year growth trend.

The roll-out of new core technology is on track. Germany is driving a significant ramp-up of migration, with plans to have around three quarters of our professional, specialty and commercial business on the new core technology in time for the January renewals. Core system migration has also commenced in France. The phased nature of the migration means we do not anticipate any material impact on premium or policy count growth in the region.

Hiscox is also undertaking a number of front office technology initiatives in Europe. A new broker portal in France is planned to go live in the fourth quarter and work has commenced on new direct-to-consumer portals in Iberia and Germany.

Hiscox USA

Hiscox USA ICWP grew 1.0% to $700.1 million (Q3 2022: $693.0 million). The trend from half year continues, with ongoing positive and accelerating momentum in the digital business and further deceleration of growth in the broker channel.

US DPD ICWP increased 8.3% in the first nine months of the year to $388.5 million (Q3 2022: $358.8 million). The growth trajectory continues to improve quarter-by-quarter, with 9.2% growth in the third quarter compared to 8.9% and 6.8% in the prior two quarters. This is the direct result of our proactive actions taken over the last 12 months.

Direct business has been live on the new technology since June 2022 and is showing excellent progress, delivering new business growth in excess of 50% and double-digit growth overall in the third quarter. The recovery of our digital partnerships business from its low point in the first quarter is continuing as existing partners and newly onboarded partners increased production.

As previously announced, to further expand our target addressable SME market, US DPD launched the first phase of its exciting new workers compensation partnership with a well-known US domestic insurer in June. The positive momentum in the soft launch phase reported in August has continued into the third quarter. A full digital launch is expected in 2024, which will help accelerate growth as the direct customer journey improves.

US broker ICWP growth continued to be impacted by a deliberate decision to focus on profitable growth. As highlighted at the half year, we saw material softening in the cyber rating environment persist. To mitigate some of these headwinds, we executed a growth campaign focused on our most profitable classes in US broker. This has increased submissions and we expect the adverse impact of cyber will start to moderate in the fourth quarter.

Following the repositioning of our US broker book, our team has been focusing on service and relationships. Pleasingly, these efforts have been recognised, as the team became the "Insurance Business America 5-Star Professional Liability 2023" winner, which recognises carriers, brokers and MGAs who have excelled in broker relations, claims handling, underwriting expertise and product quality.

Hiscox Asia

During the quarter, the Group announced that it has entered into an agreement to sell DirectAsia, its business operations in Singapore and Thailand predominantly providing motor insurance, to Ignite Thailand Holdings Limited, the parent of the Roojai group of companies. The transaction is subject to customary conditions and regulatory approvals and is expected to complete by the end of 2023.

Hiscox's decision to divest follows the Group's previously announced strategic review of the business as part of its continued active portfolio management and disciplined focus on key markets where it sees the greatest opportunities to maximise value for shareholders.

DirectAsia ICWP increased by 17.5% in constant currency to $44.4 million (Q3 2022: $37.2 million).

Hiscox London Market

Hiscox London Market continued to deliver strong growth in the third quarter, with ICWP increasing by 12.2% to $947.5 million (Q3 2022: $844.2 million), an acceleration from the 10.6% reported at half year. Net ICWP was up 18.1% to $676.7 million (Q3 2022: $572.9 million) as we retained more risk in the attractive market conditions.

Hiscox London Market benefited from an average rate increase of 8%, ahead of our expectations, although various lines of business are at different stages of the cycle. Overall, since 2018, Hiscox London Market has achieved cumulative rate increases of 72%. Property and terrorism are seeing the strongest rating environment, with property binders and major property rates up 26% and 23% year-on-year respectively, and rate in terrorism is also growing double-digit. Following a material re-rating over a number of years, casualty lines are now facing rate decreases, notably in cyber (down 14%) and D&O (down 12%), where the supply of capital is not abating. As the cycle develops, we continue to focus on quality, profitable growth and are maintaining underwriting discipline in these lines. General liability continues to perform well, driven by good levels of new business in trucking and construction.

Marine, energy and specialty was the fastest growing segment of London Market with ICWP up in excess of 40%. Power and renewables has been the primary beneficiary from the large volume of construction taking place in the energy sector, as economies across the globe work towards their net zero commitments and strive to achieve energy security amidst the uncertainties of the current geo-political environment. Since the ESG sub-syndicate went live earlier in the year, we are ahead of our expectations for business written and we continue to explore further opportunities to ensure we make the most of the market opportunities in front of us.

We remain confident that our strategy of targeting profitable growth through effective cycle management positions us well to deliver strong returns in 2023.

Hiscox Re & ILS

Hiscox Re & ILS net ICWP delivered strong growth of 23.6%, increasing to $438.3 million (Q3 2022: $354.7 million) in the third quarter, as the business seized the opportunities in the hard market. ICWP grew a more modest 2.7% to $975.5 million (Q3 2022: $949.8 million), in line with the trend highlighted throughout the year.

As a reminder, due to the seasonal nature of the risks underwritten by Hiscox Re & ILS, the majority of the premium will be earned in the second half of the year.

Year to date, Hiscox Re & ILS benefitted from an average rate increase of 32% on a risk adjusted basis and the cumulative rate increases now stand at 91% since 2018. In North American property reinsurance, demand for limit increased in July, as those who held off from purchasing earlier in the year, given the disruption seen at January renewals, returned to the market to top up their natural catastrophe programmes.

Overall, the market was more orderly during the mid-year renewals. We grew gross shares with several core clients in property catastrophe, while at the same time improving our portfolio and materially increasing our attachment profile. We continued to significantly reduce property aggregate excess of loss business and moved capacity towards the occurrence programmes given the attractive market conditions.

Hiscox ILS funds have delivered a record performance, generating an increasing amount of fee income for the Group. Hiscox ILS assets under management of $1.7 billion as at 30 September 2023, are unchanged from the half year position. This includes net capital outflows of $294 million in the third quarter, largely offset by record returns generated by the ILS funds.

With the majority of Hiscox Re & ILS's business now written for 2023, we turn our attention to the January 2024 renewals. We anticipate that the market will remain disciplined and will continue to be very attractive.

Claims

It was an active third quarter with a number of natural catastrophe events occurring during the period, including wildfires in Hawaii and Canada, floods in Vermont, an earthquake in Morocco and Hurricanes Hilary in California and Idalia in Florida. Our inwards reinsurance portfolios have been repositioned to higher attachment points, so a larger share of the net natural catastrophe losses to date is in Hiscox London Market. In addition, Hiscox London Market has exposure to some man-made large losses in the marine, energy and specialty division.

Almost two years since the start of the war, the Russia/Ukraine conflict remains ongoing. Hiscox's estimated ultimate net loss from all risks remains largely unchanged, with a significant portion of the reserves held still remaining as incurred but not reported (IBNR) losses. October saw another tragic geo-political conflict escalation between Israel and Palestine, resulting in significant loss of life and destruction. Hiscox has limited net exposure, which is well protected by reinsurance.

Despite the number and nature of events, Group natural catastrophe losses during the first nine months of the year are within the Group's budget.

Hiscox has a conservative reserving philosophy, demonstrated by consistent positive reserve development over many years. Through a combination of prudent reserving and opportunistic legacy reinsurance transactions, we aim to reduce unexpected volatility. In the third quarter, Hiscox London Market entered into a further small legacy portfolio transaction, securing coverage for potential adverse development on historical liabilities relating to some run-off general liability, cyber and alternative risks portfolios. Following this and other legacy reinsurance transactions executed in the last few years, 28% of Group gross reserves and 41% of casualty gross reserves for 2019 and prior years of accounts are protected by the legacy reinsurance transactions.

As we look forward, economic inflation remains a persistent feature, however, through a combination of rate increases and premium indexation, premium income is keeping pace with our view of expected inflation.

Investments

The investment result for the nine months ending 30 September 2023 was a gain of $201.7 million (Q3 2022: loss of $293.9 million), or a return of 2.8% year to date (Q3 2022: negative return of 4.2%). Assets under management at 30 September 2023 were $7.7 billion (Q3 2022: $7.2 billion).

Bond coupons and cash income, which more than doubled year-on-year, contributed the majority of return, and continued to increase as bond yields and interest rates moved higher.

Inflation has been trending lower but remains well above the levels targeted by policymakers. Central banks continued to tighten policy and pushed out the expected peak in the rate cycle into 2024. As a result, bond yields rose, particularly at the long end of the curve. Meanwhile, rate fluctuations in the short end of the curve held back the expected mark-to-market gains in our bond portfolio. The yield to maturity on the fixed income portfolio rose to 5.7%, up from 5.6% on 30 June 2023 and 5.1% at the end of 2022. Credit spreads were relatively benign and had modest impact on bond price movements in the quarter.

The prospect of rates being “higher for longer” weighed on growth expectations and equity markets sold off in the third quarter. We reduced our allocation to equity during the period, thus limiting the impact on portfolio returns. Overall, the Group maintains modest exposure to selected risk assets and we continue to look to incrementally improve long-term risk and capital adjusted outcomes through further diversification.

Capital management

Hiscox continues to see strong capital generation and retains a high level of liquidity, which creates the flexibility to pursue growth in the persisting favourable market conditions. We will continue to invest in our business to drive profitable growth whilst ensuring we remain adequately capitalised from a regulatory and ratings perspective.

ENDS

A conference call for investors and analysts will be held at 09:00 GMT on Wednesday, 8 November 2023.

Participant dial-in numbers:

United Kingdom (Local): +44 (0) 207 098 0702
United States of America: +1 (1) 631 570 5612
All other locations: +41 (0)58 810 7000

Passcode: 6729352

Conference Call Access:
https://services3.choruscall.ch/DiamondPassRegistration/register?confirmationNumber=6048405&linkSecurityString=953513a36

Please register at this link to obtain your personal conference pin and call details.

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Notes to editors

About The Hiscox Group

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

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

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