NAIC CLIMATE RISK DISCLOSURE SURVEY
TCFD-ALIGNED QUESTIONS
UPDATED 2022

GOVERNANCE

1. *Disclose the insurer's governance around climate-related risks and opportunities.*

In disclosing the insurer's governance around climate-related risks and opportunities insurers should consider including the following:

- Identify and include any publicly stated goals on climate-related risks and opportunities.
- Describe where climate-related disclosure is handled within the insurer's structure, e.g., at a group level, entity level, or a combination. If handled at the group level, describe what activities are undertaken at the company level.

A. Describe the board and/or committee responsible for the oversight of climate-related risks and opportunities.

In describing the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks, insurers should consider including the following:

- Describe the position on the board and/or committee responsible for the oversight of managing the climate-related financial risks.

B. Describe management's role in assessing and managing climate-related risks and opportunities.

A) In 2021, we strengthened our existing Group-wide governance structures around climate with a new Sustainability Steering Committee, which has increased senior-level oversight and accountability. The Committee is chaired by the Group Chief Executive Officer and members include the Group Chief Underwriting Officer, Chief Risk Officer, Chief Investment Officer, Chief Executive Officer or Chief Underwriting Officer business unit representatives, Chief HR Officer, Group General Counsel. In line with our annual review of committee terms of reference, in 2023 we have further refined the remit of the Sustainability Steering Committee and made enhancements to our internal processes to ensure there is appropriate balance between environmental, social and governance matters.

B) An overview of our governance structure for climate-related matters is detailed in our TCFD disclosure. This includes the frequency of climate-related meetings at each level, along with each group's particular role in monitoring, managing, reporting and escalating climate-related matters. While this structure also covers broader ESG matters, climate-related matters are an important component of this and as such are regularly debated and discussed.

STRATEGY

2. *Disclose the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy, and financial planning where such information is material.*

In disclosing the actual and potential impacts of climate-related risks and opportunities on the insurer's businesses, strategy and financial planning, insurers should consider including the following:

- Describe the steps the insurer has taken to engage key constituencies on the topic of climate risk and resiliency. *

- Describe the insurer's plan to assess, reduce, or mitigate its greenhouse gas emissions in its operations or organizations. *

A. Describe the climate-related risks and opportunities the insurer has identified over the short, medium, and long term.

In describing the climate-related risks and opportunities the insurer has identified over the short, medium, and longer term, insurers should consider including the following:

- Define short, medium, and long-term, if different than 1-5 years as short term, 5-10 years as medium term, and 10-30 years as long term.

B. Describe the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning.

In describing the impact of climate-related risks and opportunities on the insurer's business, strategy, and financial planning, insurers should consider including the following:

- Discuss if and how the insurer provides products or services to support the transition to a low carbon economy or helps customers adapt to climate-related risk.
- Discuss if and how the insurer makes investments to support the transition to a low carbon economy.

C. Describe the resilience of the insurer's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario.

A&B) Near-term climate risks and opportunities (0-5 years) s Increased claims may result from more frequent and more intense natural catastrophes, such as floods and storms, due to climate change. These claims will not only come from damage to property but also from other knock-on effects, such as global supply chain disruption or scarce resources. However, given the majority of the policies we write are annual (re)insurance policies, we can adjust pricing and appetite accordingly. There are financial risks which would arise from the transition to a lower-carbon economy, such as a drop in the price of carbon-intensive financial assets. Our ESG exclusions policy, which will see us reduce our exposures to the worst carbon emitters in both underwriting and investments, prepares us for this – as does our new GHG emission reduction targets. We are looking at opportunities in renewable energy where we are supporting a number of major wind and solar energy projects; and in the decommissioning of offshore carbon assets which is an area we insure. These are just some examples of lines of business where we could see increased opportunity over time, and in some cases we are already benefiting from changing customer trends. An example of this is US flood, where demand is growing and our product offering, use of data and technology means we are well placed to serve more customers with flood cover.

Medium- to long-term climate risks and opportunities (5+ years) s Climate-related risks have the longer-term potential to impact regulatory risk, credit risk, legal risk, reputational risk, and technology risk. We have several emerging risks forums across the organisation which are designed to identify emerging, longer-term risks and opportunities, including climate-related risks and opportunities. Alongside our in-house modelling and research expertise, these groups ensure our work takes into account climate-related issues over a range of business planning time frames. There is also the longer-term risk that those who have suffered loss from climate change might then seek to recover those losses from others who they believe may have been responsible. Where such claims are successful, those parties against whom the claims are made may seek to pass on some, or all, of the cost to insurance firms through policies such as professional indemnity or directors and officers' insurance. While in the long term as a property casualty insurer, Hiscox is certainly exposed to climate-related risks, we believe our exposures can be managed through time as a result of how we conduct our business. For example, through the flexibility we have in our predominantly annual underwriting contracts, and through the liquidity of our investment portfolio which lends itself to constant adjustment. This flexibility is our key tool for managing the multi-decade challenge of climate risks holistically.

C) With every natural catastrophe event that occurs, we learn more about the climate-related risks that our business is exposed to. Work is undertaken by our strategy, catastrophe modelling and underwriting teams to refine our modelling and underwriting approach as appropriate, and example(s) of this are outlined further in Principle 3.1. In addition, every two years one of our UK regulators, the Prudential Regulation Authority (PRA), conducts a General Insurance Stress Test (GIST) which we participate in alongside many of our peers. We participated in 2019, when the stress test included, for the first time, a climate change element, and we participated in it again during 2022. The objectives of the GIST 2022 exercise were to assess resilience to severe but plausible natural catastrophe, as well as cyber scenarios, to gather information about firms' modelling and risk management capabilities and to enhance the PRA's and firms' abilities to respond to future shocks.

While the exercise did not aim to assess the financial impact specifically from climate change, the climate-related (atmospheric) scenarios it explored – US hurricanes, European/UK windstorms and UK flood – represented severe but plausible realisations of current climate conditions chosen to reflect firms' exposures and business models. We also participated in the CBES exercise in 2021-22. Industry-wide stress tests such as the GIST and CBES support our established and embedded programme of internal stress testing and scenario analysis, and contribute to their continued evolution. Lessons learnt are fed back into the business to further boost our climate risk preparedness and support existing climate-related and ESG activity plans.

RISK MANAGEMENT

3. *Disclose how the insurer identifies, assesses, and manages climate-related risks.*

In disclosing how the insurer identifies, assesses, and manages climate-related risks, insurers should consider including the following:

- Describe how the insurer considers the impact of climate related risks on its underwriting portfolio, and how the company is managing its underwriting exposure with respect to physical, transition and liability risk. *
- Describe any steps the insurer has taken to encourage policyholders to manage their potential physical and transition climate related risks, if applicable. *
- Describe how the insurer has considered the impact of climate-related risks on its investment portfolio, including what investment classes have been considered. *

A. Describe the insurers' processes for identifying and assessing climate-related risks.

In describing the insurers' processes for identifying and assessing climate-related risks, insurers should consider including the following:

- Discuss whether the process includes an assessment of financial implications and how frequently the process is completed. *

B. Describe the insurer's processes for managing climate-related risks.

C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management.

In describing how processes for identifying, assessing, and managing climate-related risks are integrated into the insurer's overall risk management, insurers should consider including the following:

- Discuss whether climate-related risks are addressed through the insurer's general enterprise-risk management process or a separate process and how frequently the process is completed.
- Discuss the climate scenarios utilized by the insurer to analyze its underwriting risks, including which risk factors the scenarios consider, what types of scenarios are used, and what timeframes are considered.
- Discuss the climate scenarios utilized by the insurer to analyze risks on its investments, including which risk factors are utilized, what types of scenarios are used, and what timeframes are considered.

A) Climate-related risks, among other major exposures, are monitored and measured both within our business units and at Group level, so we understand how much overall risk we take and what is being done to manage it. We look at how different risks interact and whether these may result in correlations or concentrations of exposure that we need to know about, monitor and manage.
B) All changes to modeling policy and all of our research prioritizations and results are signed off and authorized by this group, decisions are recorded, and models are adapted to reflect policy. Their work not only enables us to continuously refine our models (using data to make better decisions): it also supports future product development. The risk management processes we have established and embedded for climate-related matters feed into the annual review of the operating plan, the long-term strategy planning process, as well as forward-looking assessment scenarios and stress tests and reverse stress test scenarios
C) Our Risk Committee has the main responsibility for assessing the climate-related risks and opportunities we face. It advises the Board on how best to manage the Group's risks, by reviewing the effectiveness of risk management activities and monitoring the Group's actual risk exposure. The Risk Committee relies on frequent updates from within the business and from independent risk experts for its understanding of the risks facing both our business and the wider industry.
We continue to focus on reducing the emissions we have control over, and to work closely with our partners where that control is shared. Where common standards and methodologies do not yet exist we want to help shape the solution. Reduce our Scope 1 and 2 emissions by 50% by 2030, against a 2020 adjusted baseline*. Reduce our operational Scope 3 emissions by 25% per FTE by 2030, against a 2020 adjusted baseline*. Transition our investment portfolios to net-zero GHG emissions by 2050. Engage with our suppliers, brokers and reinsurers on our net-zero targets and on their plans to adopt Paris-aligned climate targets. Monitor emerging standards around underwritten emissions and collaborate across our industry on their development, aligning with best practice in this area as it emerges.

METRICS AND TARGETS

4. *Disclose the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material.*

In disclosing the metrics and targets used to assess and manage relevant collateralized risks and opportunities where such information is material, insurers should consider including the following:

- Discuss how the insurer uses catastrophe modeling to manage the climate-related risks to your business. Please specify for which climate-related risks the insurer uses catastrophe models to assess, if any.

A. Disclose the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process.

In disclosing the metrics used by the insurer to assess climate-related risks and opportunities in line with its strategy and risk management process, insurers should consider including the following:

- In describing the metrics used by the insurer to assess and monitor climate risks, consider the amount of exposure to business lines, sectors, and geographies vulnerable to climate-related physical risks [answer in absolute amounts and percentages if possible], alignment with climate scenarios, [1 in 100 years probable maximum loss, Climate VaR, carbon intensity], and the amount of financed or underwritten carbon emissions.

B. Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

C. Describe the targets used by the insurer to manage climate-related risks and opportunities and performance against targets.

A. Getting to net zero is a shared challenge, and we need to play our part in achieving this global goal. As a Group, Hiscox has had stretching GHG emission reduction targets for a number of years, but in 2022 we published new targets, using SBTi methodologies, that align with a 1.5°C net-zero world by 2050. Progress against these targets will be recorded through our annual carbon reporting cycle, driven by our ESG working group and overseen by our Sustainability Steering Committee, with at least annual updates to the Board. We will also continue to offset the emissions we generate via accredited offset schemes, to ensure we remain operationally carbon neutral through offsetting as we have been since 2014.

B. In addressing our Scope 1 and 2 targets, we are already engaging with our facilities managers across the Group to continue to transition our offices to renewable electricity contracts. Where we have total control over our utility providers, this is easier to do, but where that control is shared, or where it belongs to our landlords, we will petition for change. To understand this further, during 2022 we conducted a deep-dive on renewable electricity usage across the Group, and identified key sites to focus on for continued adoption of renewable electricity in support of our Scope 1 and 2 targets. On operational Scope 3, which is dominated by business travel, we are currently focused on improving the consistency of travel data across the Group to enhance our understanding of both volume and class of travel, to ensure our action plan is appropriately targeted. On Scope 3 more broadly, where emissions are dominated by our investments, the Board has agreed that we will aim for more than 25% of our corporate bond portfolio by invested value to have net-zero or Paris-aligned targets by 2025 and that we will target an additional 25% by AUM coverage every five years as we aim to be on a linear path to 100% portfolio coverage by 2040. We are making good progress towards the first of these interim targets, with approximately 20% of our corporate bond portfolio having net-zero/Paris-aligned targets as at 31 December 2022. We have also established a half-year footprint exercise, in order to provide a mid-point for assessing emissions and to further enhance our data collection processes. We completed this exercise in 2022 and will do so again in 2023.

C. We continue to focus on reducing the emissions we have control over, and to work closely with our partners where that control is shared. Where common standards and methodologies do not yet exist we want to help shape the solution. Reduce our Scope 1 and 2 emissions by 50% by 2030, against a 2020 adjusted baseline*. Reduce our operational Scope 3 emissions by 25% per FTE by 2030, against a 2020 adjusted baseline*. Transition our investment portfolios to net-zero GHG emissions by 2050. Engage with our suppliers, brokers and reinsurers on our net-zero targets and on their plans to adopt Paris-aligned climate targets. Monitor emerging standards around underwritten emissions and collaborate across our industry on their development, aligning with best practice in this area as it emerges

* Asterisks represent questions derived from the original Climate Risk Disclosure Survey.