Task Force on Climate-related Financial Disclosures (TCFD)

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

We have been reporting against the TCFD-aligned ClimateWise Principles since 2019 and are public supporters of TCFD. Our annual climate report sets out our approach to climate-related matters in every part of our business: governance, risk management, operations, underwriting, investments, marketing and so on. It is our richest source of climate-related information and expands on the information set out below, so for more information go to: **hiscoxgroup.com/2021climatereport.**

Governance

We have an established and embedded governance structure for climate-related matters, with robust and rigorous processes for identifying, measuring, monitoring, managing and reporting climate-related matters across the Group. This spans from an operational level up to the newly established Sustainability Steering Committee, the Risk Committee of the Board, and the Board itself.

Within this structure, there are clear roles and responsibilities. In our UK legal entities, this structure is bolstered by the appointment of senior managers with overall regulatory responsibility for managing the financial risks from climate change, in line with the UK's Senior Managers Certificate Regime (SMCR).

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, and Head of Investor Relations.

An overview of our governance structure for climate-related matters is detailed on pages 46 to 47. 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.

Within this structure we also consider the training and development requirements of those with oversight responsibilities and accountability for climate matters to ensure we have appropriate awareness and expertise to drive progress. In 2021, this included an externally facilitated climate training session, available to our Board Directors at both Group and subsidiary level, to establish a new baseline of climate knowledge post-COP26; brief Board members on the latest climate-related developments they should be aware of; and introduce the concept of a climate-competent board.

The governance structure we have embedded for climate issues is also supported by a range of relevant policies and processes that we expect both our staff and our third-party providers to adhere to. These include the following.

- The Hiscox Group ESG exclusions policy, which sets out our aim to reduce steadily and eliminate by 2030 our insurance, reinsurance and investment in thermal coal-fired power plants and thermal coal mines, Arctic energy exploration projects (beginning with the ANWR region), oil sands and controversial weapons. Oversight of this policy belongs to the Sustainability Steering Committee, with implementation of it driven at a business unit and function level across both underwriting and investments.
- The Hiscox Group responsible investment policy, which outlines our expectations of both our in-house investment team and our external asset managers. This includes our investment processes and stewardship activities as we look to invest in companies that have sound ESG practices; how we evaluate our managers' ESG integration; and our approach to impact investing. This policy is owned by the Group investment team with oversight from both the Sustainability Steering Committee and the Group Investment Committee.
- The Hiscox Group environmental policy, which outlines our approach to managing the environmental impact of our business activities and those that arise from our ownership and occupation of office premises. We actively manage and aim to minimise our environmental impacts, due to the resources we consume and

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See an overview of our modelling of extreme natural catastrophe loss scenarios.

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See an overview of our governance structure for climate-related matters.

the amount of waste our activities produce, as well as complying with relevant environmental legislation and other external requirements. While the policy is owned by our property services teams, its effective implementation relies on Group-wide adherence to the environmental principles we wish to live by.
- The Hiscox Group ethical guide for suppliers, which outlines how our corporate values and commitments to doing business in a socially responsible way extends to our relationships with suppliers. It covers our supplier selection process; fairness and recognition; supplier diversity; engagement; our expectations of how our suppliers behave as well as their obligations in adhering to laws and regulations regarding employment, health and safety, the environment and anti-bribery and corruption. It is owned by our Group procurement team, shared with suppliers during the tender process and suppliers are reminded of it periodically.

These governance policies and processes are complemented by our long-standing active risk management practices, which include climate-related stress testing and scenario analysis (see page 41). Examples of the outputs of this work, such as the property extreme loss scenarios detailed on page 41, show the potential financial impact to the Group of events including Japanese earthquake, Japanese windstorm, European windstorm, US earthquake and US windstorm.

Our governance work culminates in regular, repeatable climate-related public reporting and disclosures. This includes owned reports such as our annual climate report, as well as global standards that provide a means of peer comparison: CDP, ClimateWise, ISS, MSCI and Sustainalytics. An overview of our 2021 performance can be found on page 53.

Strategy

Climate change is considered to be an emerging risk with the potential to impact each existing risk type. It could have a material impact on the Group, by altering the frequency and severity of extreme weather events. It could also present an opportunity, driving greater demand for cover against changing weather trends and creating a need for innovative new products that meet emerging needs.

In addition to the physical impacts of a changing climate, the Group is also aware that the transition to a low-carbon economy, necessary to limit the worst physical impacts of global warming, also presents significant business challenges as well as opportunities. One example of this is litigation risk, where one party may seek to recover climate-change-related losses from another who they believe may have been responsible.

The governance and risk management structures we have in place ensure a coordinated approach to climate across the Group. They are supported by investments in technology – to ensure the right modelling and data are available to support our pricing and exposure – and in-house expertise – to combine off-the-shelf climate views with our own claims expertise and insight.

We consider the potential impact from climate-related issues over short-, medium- and long-term time horizons.

Near-term climate risks and opportunities (0-5 years)

- Higher claims are likely to result from more frequent and more intense natural catastrophes, such as floods and storms, due to climate change. These claims will not only come from damage to property but also from other knock-on effects, such as global supply chain disruption or scarce resources. However, given the majority of the policies we write are annual (re)insurance policies, we regularly consider our exposures to climate-related risks which gives us the opportunity to adjust pricing and appetite accordingly. An overview of our modelling of extreme natural catastrophe loss scenarios can be found on page 41.
- There are also the financial risks which could arise from the transition to a lower-carbon economy, such as a slump in the price of carbon-intensive financial assets. 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 do our new greenhouse gas (GHG) emission reduction targets. For more information, see page 48.
- In terms of opportunities, we have significant expertise in areas such as flood, where we have a suite of products and considerable risk experience; 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

More information on our approach to ESG and, in particular, climate can be found at **hiscoxgroup.com/responsibility**

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Hear more from our catastrophe modelling and research lead.

GHG emissions are calculated according to the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) and UK government SECR guidelines. Note some emissions totals may not tally due to rounding.

A copy of our total GHG emissions inventory can be found on page 49.

where we could see increased opportunity over time, and in some cases we are already benefitting 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. More information on our approach to US flood can be found on page 92.

Medium- to long-term climate risks and opportunities (5+ years)

- 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.

As climate risks and opportunities evolve, so too does our strategy. We are working to improve our assessment and disclosures regarding the resilience of the organisation's strategy, taking into consideration different climate-related scenarios. We are leveraging work done to date in developing scenarios and participating in wider industry initiatives such as the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise for Hiscox Syndicate 33. The objective of the CBES industry exercise was to test the resilience of current business models within the largest UK banks, insurers and the financial system to the physical and transition risks from climate change. The CBES exercise was designed to progress climate thinking across the industry and establish an initial aggregate view of the risk exposures that the market may be facing over the next 30 years, the resilience of the financial system as a whole to these risks, and the adjustments and management actions that may be required. Through our participation in this exercise, we have gained new insights in relation to stress testing in a 2°C or lower scenario, which we will use to further develop our thinking in this area and boost our climate risk preparedness.

These insights will contribute to our future plans to assess our resilience taking into consideration different climate-related scenarios, including a 2°C or lower scenario. In order to meet future disclosures in this area, we intend to review a range of scenario impacts through internal workshops, from which potential management actions can be identified and our strategy and risk management approach can be further refined. This work will be a focus for 2022 and an update on our progress against it will be provided in our 2022 Annual Report.

Risk management

Climate-related risks, among other major exposures, are monitored and measured both within our business units and at Group level, so we understand how much overall risk we take and what is being done to manage it. We look at how different risks interact and whether these may result in correlations or concentrations of exposure that we need to know about, monitor and manage.

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

Streamlined Energy and Carbon Reporting (SECR) GHG emissions

Activity	2021 energy (kWh)	2021 emissions (tCO_2e)	2020 energy (kWh)	2020 emissions (tCO_2e)	% change emissions (tCO_2e)
Scope 1 total	–	678	–	615	10%
Natural gas	2,342,644	441	1,710,200	315	40%
Company cars	377,056	87	560,441	151	-42%
Refrigerants		150		149	1%
Scope 2 (market-based) total		866		1,111	-22%
Electricity (location-based)	5,603,303	1,484	5,176,116	1,565	-5%
Electricity (market-based)	5,603,303	847	5,176,116	1,090	-22%
District heating	108,999	19	119,942	21	-10%
Scope 3 total		15		231	-93%
Personal vehicles	66,085	15	899,189	231	-93%
Total (market-based)	8,498,087	1,559	8,465,888	1,957	-20%

as well as in our risk policies. This means that climate-related risk drivers are assessed and recorded against the risks on our risk and control register, and ensures that we do not consider any single climate risk factor in isolation.

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

This includes:
- **underwriting** – exposure radar in casualty exposure management group (EMG);
- **enterprise view** – risk team emerging risk;
- **compliance** – regulatory horizon scanning;
- **indemnity** – claims and actuarial reserving;
- **market** – strategic and business planning.

We also review natural catastrophe risk at least quarterly, through our Natural Catastrophe Exposure Management Group (NCEMG), which is chaired by the Group Chief Underwriting Officer and attended by other Hiscox senior managers with responsibility for catastrophe-exposed business. This group looks at the risk landscape, exposure monitoring and capital modelling for climate-related perils, and recommends, based on the latest observations and scientific knowledge, which models should be used for each peril, and, if necessary, how they should be adapted to reflect our best view of the risk. They also identify new areas of risk research.

All changes to modelling policy and all of our research prioritisations and results are signed off and authorised 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. For example, we have calibrated and delivered a loss model that will improve the pricing capabilities for one of our flood insurance products, FloodPlus. We also included the use of additional model sources for location-level pricing. In addition, we are working with data providers to augment FloodPlus with first-floor elevation data, and are exploring the use of machine learning to augment the information we receive from vendor floodhazard maps.

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.

Metrics and targets

The cornerstone of our climate-related metrics and targets is our GHG emission reduction targets. In 2021, we set new Board-approved targets to 2030 which have been calculated using SBTi methodologies that align with a 1.5°C net-zero world by 2050. This is in keeping with our commitments as a signatory to the 2015 Paris Climate Agreement.

GHG targets

Our new targets commit us to:
- 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.

*Operational Scope 3 emissions predominantly consist of business travel (air, rail and car travel).

Interim targets and actions

We recognise that achieving these targets will take collective, consistent effort. While we will further define our supporting action plan during 2022, there are areas where we already have a glide path, or where work is already underway, as follows.
- 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. We are also reassessing our existing use of company cars, which is currently limited to a small fleet in some of our European operations. We are already making progress here, having retired our fleet of company cars in Germany during 2021, and in those areas where it is not possible to eliminate the fleet entirely, we intend to transition to electric vehicles over time.

- 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/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.

Progress against these targets will be driven by our ESG working group and overseen by our Sustainability Steering Committee, with at least annual updates to the Board.

Progress will also be recorded through our annual carbon reporting cycle, and we will seek to remain operationally carbon neutral through offsetting, as we have been since 2014.

More information on our 2021 carbon emissions can be found on page 49.

Other metrics and targets we consider include:

- the monitoring and measurement of underwriting and investment exposure to carbon-heavy sectors including coal-fired power plants and coal mines, oil sands and Arctic energy exploration (beginning with the Arctic National Wildlife Refuge), in line with our Group ESG exclusions policy;
- annual investment portfolio sustainability reviews, taking into account climate-related issues, in line with our responsible investment policy;
- the growth and exposure of sustainable underwriting products such as flood and renewable energy products.

These activities are owned by the relevant business areas, from underwriting to investments, with progress reported through the embedded ESG governance structures. These metrics and targets are complemented by external key performance indicators, such as our public ESG disclosure scores (see page 53) and our annual climate report, which assess our progress against climate-related activities during the prior year and outlines our plans for climate-related action in the year ahead.

TCFD disclosure mapping compliance statement

Theme
Governance Disclose the organisation's governance around climate-related risks and opportunities.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks.
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Read more in our CDP climate questionnaire 2021 hiscoxgroup.com/cpddisclosure2021.

Read more about our approach to climate change in our 2021 climate report, available online at hiscoxgroup.com/2021climatereport.

Disclosures have been made against the TCFD recommendations. Where additional information outside of this report aids our TCFD disclosure, links to this information have been provided, and where we have not yet disclosed fully against the recommended TCFD disclosure, we have outlined why this is and the actions already being taken towards meeting the disclosure requirements within the timeframe given.

Recommended disclosure	Status	Reference
Describe the organisation's governance around climate-related risks and opportunities.	Disclosed.	2021 climate report* pages 9, 10 and 11. CDP climate questionnaire 2021.
Describe management's role in assessing and managing climate-related risks and opportunities.	Disclosed.	2021 climate report* pages 14 and 15. CDP climate questionnaire 2021.
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Disclosed.	2021 climate report* pages 5 and 22. CDP climate questionnaire 2021.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Disclosed.	CDP climate questionnaire 2021.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Plan to disclose in the next two years.	2021 climate report* page 12. More information on how we intend to meet this disclosure requirement, and steps already being taken towards it, are outlined on page 56.
Describe the organisation's processes for identifying and assessing climate-related risks.	Disclosed.	2021 climate report* pages 9, 11, 27-29. CDP climate questionnaire 2021.
Describe the organisation's processes for managing climate-related risks.	Disclosed.	2021 climate report* pages 14-15. CDP climate questionnaire 2021.
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Disclosed.	2021 climate report* page 9. CDP climate questionnaire 2021.
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Disclosed.	2021 climate report* pages 39-40. CDP climate questionnaire 2021. See Hiscox Group website.
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.	Disclosed.	2021 climate report* pages 39-40. CDP climate questionnaire 2021. See Hiscox Group website.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Disclosed.	2021 climate report* pages 39-40. CDP climate questionnaire 2021.

*Our 2021 climate report was published in August 2021 and covers our climate-related activities between July 2020 and July 2021. Where we reference information from that report, that information remains correct at 2 March 2022.