Hiscox Société Anonyme

Solvency and Financial Condition Report 2019

April 2020

Contents

Glossary of terms

Abbreviation	Details of abbreviations
CAA	Le Commissariat aux Assurances
CEO	Chief Executive Officer
CFO	Chief Finance Officer
COO	Chief Operating Officer
CRO	Chief Risk Officer
CUO	Chief Underwriting Officer
DAC	Deferred Acquisition Costs
EAL	Excess of assets over liabilities
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ENID	Events Not In Data
EU	European Union
EUR	Euro
FTSE	Financial Times Stock Exchange
GBP	British Pound
HSA	Hiscox Société Anonyme
HSA Board or the Board	Board of Directors of Hiscox Société Anonyme
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
IBNR	Incurred but not reported
IELR	Initial Expected Loss Ratio
IFRS	International Financial Reporting Standards
Lux GAAP	Luxembourg Generally Accepted Accounting Principles
MD	Managing Director
NED	Non-Executive Director
ORSA	Own Risk and Solvency Assessment
PDR	Performance and Development Review
Property insurance	Fire and other damage to property insurance
Quota share	Reinsurance agreement where the primary insurer and the reinsurer use a fixed percentage in sharing the amount of premiums and losses
QRTs	Quantitative Reporting Templates
ROE	Return on Equity
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SPV	Special Purpose Vehicles
the Plan	Internal Audit Plan
UK	United Kingdom

Directors’ statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report (SFCR) in all material respects in accordance with the Solvency II Regulations. We have approved the SFCR.

Andrea Schmid Director

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 Article 82 of the Law of 7 December 2015 on the insurance sector, as amended, as well as Annex XX of the Commission delegated Regulation (EU) 2015/35 and EIOPA guidelines on reporting and public disclosure BoS-15-109.

The SFCR contains qualitative and quantitative information on HSA's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management together with standardised Quantitative Reporting Templates (QRTs) for 2019.

Business and performance

HSA is a Luxembourg authorised insurer and is a wholly owned subsidiary of Hiscox Ltd, which is incorporated in Bermuda and has a FTSE 250 listing on the London Stock Exchange. HSA's operations form the vast majority of the European division of Hiscox Ltd.

Following the Part VII transfer and Cross Border Merger, HSA started to underwrite business as of 1st January 2019 with the focus of servicing clients with European exposure. HSA's principal activity is the transaction of general 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 employment liability and property risk.

The most material Solvency II lines of business are estimated to be General Liability insurance and Fire and Other Damage to Property insurance (Property insurance) accounting for approximately 96% of GWP. HSA underwrites insurance risk in various locations including Germany, France, Netherlands, Belgium, Spain, Ireland, Portugal and the United Kingdom (UK). The material geographical area where HSA underwrites business is the Germany and France.

In 2019, HSA's gross written premiums amounted to €497m on a Lux GAAP basis. Due to HSA's recent commencement of commercial operations, no comparison to the previous reporting period is available.

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

System of governance

HSA defined an adequate system of governance with clear roles and responsibilities throughout the organization which underpins its business model in accordance with Group's governance framework and the Solvency II requirements.

HSA operates a three lines of defence model which establishes clear risk roles and responsibilities that enables risk-reward decisions to be taken in a transparent and consistent manner, with an appropriate amount of challenge and oversight. The three lines of defence model provides a widely-understood system of risk management and internal control across the business, and a mechanism for assessing and monitoring its effectiveness.

Further details of HSA's system of governance are included in Section B of this report.

Risk profile

HSA calculates its regulatory Solvency Capital Requirement based on four risk types: underwriting risk; market risk; credit risk and operational risk. Material risk exposures are mitigated through the operation of controls to reduce likelihood or impact of risks occurring; the holding of capital; and through the purchase of (re)insurance to limit HSA's exposure to losses.

A snapshot of HSA's pre-diversified risk profile composition for the year ended 31 December 2019 is shown in Figure 1. The risk profile is produced using the Solvency II standard formula framework.

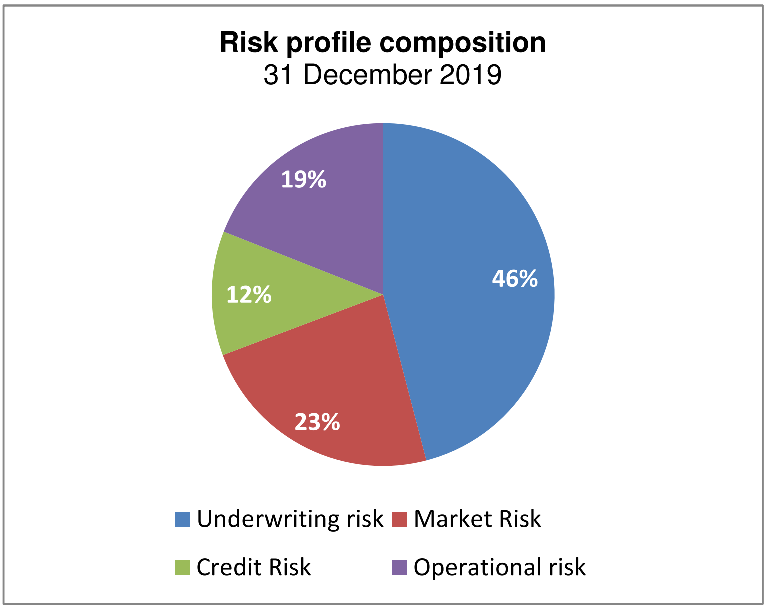

Figure 1

Underwriting risk (including reserve risk) remains the most significant risk that HSA is exposed to, representing 46% of its pre-diversified risk profile which is assumed mainly through the underwriting process.

The second largest risk type is **market risk**. The pre-diversified SCR for market risk amounted to 23% in 2019. The largest drivers of this relate to Liquidity Risk and Investment risk. HSA invests in accordance with the Solvency II Prudent Person Principle to protect the security, quality, liquidity and profitability of the portfolio, and ensure that assets are available to the company in the relevant currency as required.

The third largest risk type is **operational risk**, making up 19% of the overall pre-diversified risk profile.

The remainder is **credit risk**, which amounted to 12%. The inherent credit risk exposure for HSA is material with the quota share agreement in place with HIB. This risk is mitigated by holding collateral and limiting the amount of exposure to reinsurers based on their credit rating.

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, HSA's SCR is less than the sum of the individual capital requirements for each risk, reflecting the impact of this diversification benefit. Further details of HSA's risk profile, including analysis of HSA'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 Luxembourg) and the Solvency II Regulations.

Table 1 shows the differences between HSA's shareholders' equity (as presented in the financial statements prepared under Luxembourg Generally Accepted Accounting Principles (Lux GAAP)) and the Solvency II balance sheet shown in Appendix A of this report:

	2019 €000
Shareholders' equity as shown in the financial statements	103 091
Solvency II valuation adjustments to assets (Note i)	(786 735)
Solvency II valuation adjustments to technical provisions (Note ii)	144 308
Solvency II valuation adjustments to other liabilities (Note iii)	640 239
Solvency II EAL	100 903

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, intangible assets and insurance and reinsurance receivables not yet due as these are taken into account in the valuation of technical provisions under Solvency II. No adjustments have been made to the valuation of investments for the purposes of Solvency II as they are already valued on a market value, however under Lux GAAP, a value adjustment is made when the market value is lower than the purchase price. Additionally, for Solvency II purposes IFRS 16 was applied, resulting in differences to Lux GAAP.

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. HSA has no material contingent liabilities that require recognition as liabilities in the Solvency II balance sheet. Additionally, for Solvency II purposes IFRS 16 was applied, resulting in differences to Lux GAAP.

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

Capital management summary

The solvency position of an insurer under Solvency II is determined by comparing eligible own funds with the Solvency II SCR. Insurers are required to meet the SCR at all times and are required to rectify any breach within six months (though 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.

At 31 December 2019, HSA's Solvency II Eligible own funds were €100.9m, compared to a standard formula SCR of €66.6m and representing an SCR coverage ratio of 152%. HSA's MCR was €30.0m.

HSA's eligible own funds are calculated in Table 2 below.

	2019
Solvency II EAL €'000	100 903
Eligible own funds (Tier 1 & Tier 3) €'000	100 903
Minimum capital requirement €'000	29 983
Solvency capital requirement €'000	66 599
Solvency capital requirement ratio	152%

Table 2

There are no restrictions on the availability or transferability of HSA's own funds (e.g. no existence of ring-fenced funds). The majority of the eligible own funds are unrestricted Tier 1 items (i.e. ordinary share capital, related share premium and reconciliation reserve), with the exception of a deferred tax asset amounting to €1.6m which is not eligible to cover the MCR.

HSA has not requested and therefore 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 Hiscox Group has developed an internal economic capital model the Hiscox Integrated Capital Model, (HICM), which is used by insurance entities within the Group to assess their own view of their risks and capital requirements. The internal capital assessments within this report have been calculated using the HICM, unless stated otherwise. The HICM was used during HSA's 2020 business planning process for the associated capital analysis and is consistent with how HSA sees risks emerging and accumulating.
The internal economic capital view provided by the HICM allows a more detailed, HSA-specific view of its capital requirements, which is a useful internal tool for the business. HSA regularly reviews the suitability of the Solvency II standard formula and there are currently no plans for HSA to use the HICM to calculate its regulatory capital requirements

Decisions on optimal capital levels are an integral part of HSA's business planning and forward-looking assessment of risk processes which cover a three year time horizon. HSA 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 instances of non-compliance with the SCR or MCR. Further details of HSA'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 S.A. (HSA) is a private company limited by shares.

The registered office of HSA is 35F Avenue John F. Kennedy, L-1855 Luxembourg, Luxembourg.

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

HSA is supervised by the Commissariat Aux Assurances.

Commissariat Aux Assurances
7, boulevard Joseph II
L-1840 Luxembourg
Luxembourg

A.1.3. External auditor

The external auditor of HSA is PricewaterhouseCoopers Société coopérative.

PricewaterhouseCoopers Société coopérative
20 rue Gerard Mercator
L-2182 Luxembourg
Luxembourg

A.1.4. Holders of qualifying holdings in HSA

Hiscox Ltd, a company incorporated in Bermuda and listed on the London Stock Exchange, owned 100% of the ordinary share capital of HSA.

The registered office of Hiscox Ltd is Chesney House, 96 Pitts Bay Road, Pembroke HM08, Bermuda.

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

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

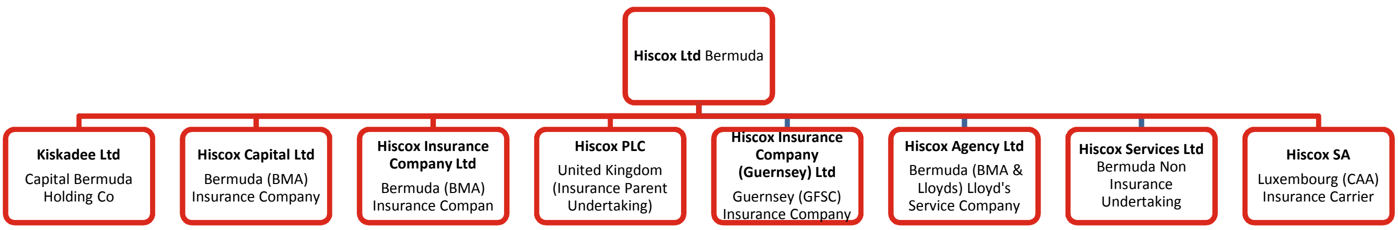

Figure 2

The detail of ownership of HSA is shown in sub-section A.1.4 above.

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

The principal activity of HSA is the transaction of general insurance business, in particular personal and commercial insurance cover. Personal insurance includes high-value household, 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 liability lines such as directors and officers, cyber, public liability, employers' liability, and property risks.

Material lines of business

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

Solvency II line of business	% of gross premiums written 2019
Fire and other damage to property insurance	38.0%
General liability insurance	57.7%
Others	4.2%

Table 3

Material geographic areas

As at 31 December 2019, the main locations where HSA conducts business are Germany, France, Spain and Ireland and their combined contribution to HSA's gross premiums written is €304m. This is shown in Figure 3 below.

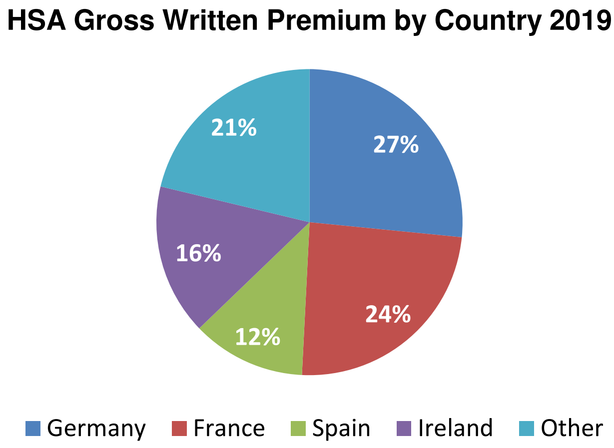

Figure 3

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

For the Company, 2019 will be remembered as a foundational year as it has reinforced its presence in Europe as the new Luxembourg-based insurance carrier started to operate commercially on January 1st 2019. HSA has successfully incorporated the Part VII portfolio as well as the Cross Boarder Merger with the previous agency (Hiscox Europe Underwriting Limited).

A.2. Underwriting performance

HSA's underwriting performance for the year ended 31 December 2019 is set out in Table 4.

Key performance indicators	2019
Gross premiums written (€000)	496 651
Net premiums written (€000)	106 429
Net premiums earned (€000)	108 114
Underwriting profit (€000)	-4 154
Net claims ratio (%)	18,5
Operational expenses ratio (%) [Net]	85.6
Net combined ratio (%) [excluding fx]	103.8

Table 4

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

HSA's underwriting performance by material Solvency II lines of business for the years ended 31 December 2019 is set out in Tables 5.

Key performance indicators[1]	Fire and other damage to property insurance	General liability insurance	Other	Total 2019
Gross premiums written (€000)	188 843	286 732	21 076	496 651
Net premiums written (€000)	49 720	52 714	3 996	106 429
Net premiums earned (€000)	46 697	56 739	4 678	108 114
Gross claims incurred (€000)	-304 248	566 386	-11 698	250 441
Net claims incurred (€000)	14 909	-4 593	79	10 394
Expenses incurred (€000)	42 144	57 031	2 699	101 875
Underwriting profit (€000)	-10 356	4 301	1 901	-4 154
Net claims ratio (%)	36.2	6.1	-9.1	18.5
Operational expense ratio (%) [Net]	64.3	103.1	86.7	85.6
Combined ratio (%) [Net]	122.2	92.4	59.4	103.8

Tables 5

[1] Underwriting profit on an Lux GAAP basis but individual line items are presented on a SII basis

In 2019, HSA's gross premiums written totalled €497m on a Lux GAAP basis. The majority of the in force business was transferred as of 1 January 2019 from Hiscox's UK-domiciled insurer.

The net operational expense ratio for the year was 106.0%, which includes several of the costs incurred in completion of the part VII transfer from Hiscox's UK-domiciled insurer. This was also the main driver of the €4.2m loss incurred during 2019.

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

Key performance indicators[1]	Germany	France	Ireland	Other	Total 2019
Gross premiums written (€000)	132 009	120 236	79 270	165 136	496 651
Net premiums written (€000)	27 392	27 233	14 603	37 202	106 429
Net premiums earned (€000)	28 076	28 431	14 677	36 930	108 114
Gross claims incurred (€000)	54 985	76 434	37 210	81 812	250 441
Net claims incurred (€000)	3 951	6 596	89	-243	10 394
Expenses incurred (€000)	24 510	23 107	15 669	38 589	101 875
Underwriting profit (€000)	-385	-1 272	-1 081	-1 416	-4 154
Combined ratio (%) [Net]	101.4	104.5	107.4	103.8	103.8

Table 6

[1] Underwriting profit on an Lux GAAP basis but individual line items are presented on a SII basis

Table 6 sets out an analysis of HSA's underwriting performance by geographical area. The main locations where HSA conducts business are Germany, France and Ireland. Other locations of note are Spain, the Netherlands, Belgium, Ireland, Portugal and the UK.

In line with the company's strategy, majority of the business is reinsured to companies internal and external to the Hiscox Group.

A.3. Investment performance

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

The composition of HSA's investment portfolio as at 31 December 2019 is as shown in Table 7.

Asset class	**Composition (%)**
Debt and fixed income securities	
- Government bonds	7.9
- Corporate bonds	71.2
Collective investment undertakings	5.6
Derivatives	0.0
Deposits other than Cash equivalents	0.1
Cash and cash equivalents	15.1

Table 7

The investment income and expenses by asset class as disclosed in the financial statements for the year ended 31 December 2019 are shown in Table 8.

Asset class	31 December 2019			
	Investment Income (€000) (including realised and unrealised gains)	**Investment expense (€000)**	**Net investment return (€000)**	%
Debt and fixed income securities	208	(143)	65	0.1
Government bonds	133	(21)	112	0.4
Corporate bonds	75	(122)	(47)	(0.0)
Collective investment undertakings	(228)	0	(228)	(1.0)
Derivatives	4	0	4	0.0
Loans	0	0	0	0.0
Cash and cash equivalents	54	0	54	0.0
Total	38	(143)	(105)	0.00

Table 8

Debt and fixed income securities: The fixed interest portfolio delivered a returned of 0.1% which is in line with the benchmark return. The benchmark comprises 50% 1-3 year Euro Corporate Index and 50% 3 month Euro Libor.

Collective investment undertakings: For the year the risk asset returned -1% versus the cash plus benchmark which returned 6.5%.

Derivatives: Very low returns were made on derivative positions during the year. This is to be expected since the use of derivatives is aimed at offsetting against adverse positions rather than speculation.

Cash and cash equivalents: With interest rates remaining at low levels, interest on cash remains very subdued at €54.427. Cash held in Euros generates a return of nil, preferential to many banks or managers which have negative returns.

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 profit and loss.

A.3.3. Information about any investments in securitisations

There are no investments in securitisation as at 31 December 2019.

A.4. Performance of other activities

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

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

A.4.2. Leasing arrangements

The Company has arranged a bank guarantee with respect to their various office deposits. These guarantees are held with a number of different banks throughout Europe. This represents 6 month's rent that can be called by the Landlords in case of non-payment of two consecutive months of rent at the due date, in such case, the Landlord can call upon this amount at any time. This bank guarantee shall be terminated at the termination of the lease.

A.5. Any other information

All material information relating to HSA's business and performance has been disclosed in sub-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, HSA seeks to apply clear and appropriate standards of corporate governance.

The HSA Board is ultimately responsible for the oversight of HSA's performance and risk management. There is an established system of governance with defined segregation of duties and delegation of responsibilities to various committees reporting to the Board. The reporting relationship between the Board and functional areas are detailed in sub-section B.1.1 of this report. The sub-committees that act on behalf of HSA's Board are identified in Figure 4.

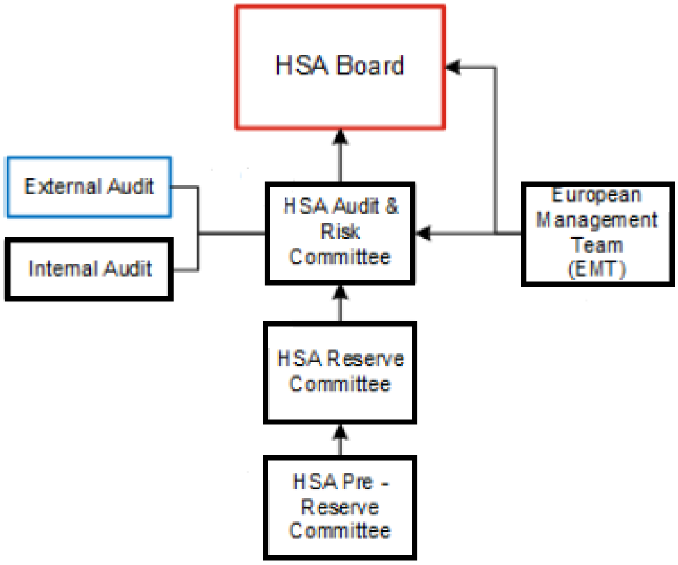

Figure 4

B.1.1. Boards and committees

The Board of Directors derives its collective authority by direct delegation from its shareholder and in accordance with Luxembourg laws. Its key purpose is to ensure the Company's prosperity by collectively directing the Company's affairs whilst meeting the appropriate interests of its shareholder and relevant stakeholders.

As at 31 December 2019 the Board was composed of two independent non-executive directors, three non-executive directors and two executive directors, who are the CEO Europe and the Head of Legal and Compliance Europe who is licensed as Approved Director of HSA. All three non-executive directors are members of the executive team of Hiscox Group with the Chairman of the Board being the Group CEO.

The composition of the Board as at 31 December 2019 is as follows:

Mr. Stephane Flaquet (Executive Director)
Mrs. Andrea Schmid (Executive Director)
Mr. Bronislaw Edmund Masojada (Non-Executive Director and Chairman)
Mr. Hamayou Akbar Hussain (Non-Executive Director)
Mr. Ben Walter (Non-Executive Director)
Mr. Victor H. van der Kwast (Independent Non-Executive Director)
Mr. Thomas Hürlimann (Independent Non-Executive Director)

The Board meets at least four times a year and operates within established Terms of Reference. 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 HSA. A number of matters are reserved specifically for decision by the Board. Other matters are delegated to the Approved Director of HSA, the CEO Europe, the European Management Team (EMT), the appointed legal representative of the respective country branch and to the Audit and Risk Committee.

Senior Management Structure

The European Management Team (EMT) serves as the most senior decision-making forum in relation to the organisation and governance of the Company and to achieve the strategic plans, goals and objectives of the Company approved by the Board and such other matters as specified by the CEO.

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.

For the year ended 31 December 2019, three business units were able to write on HSA – Hiscox Europe, Hiscox UK and Hiscox Special Risks. All of these business units are part of the Retail division of the Hiscox Group.

HSA Key Functions' business activities

The three lines of defence model is applied across the Group. This provides a structure for risk roles and responsibilities that enables risk-reward decisions to be taken in a transparent and consistent manner, with an appropriate amount of challenge and oversight. The three lines of defence model provides a widely-understood system of risk management and internal control across the business, and a mechanism for assessing and monitoring its effectiveness. The three lines of defence are defined as per the below table.

Three lines of defence model

1	2	3
First line of defence *Owns* 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.	Second line of defence *Assesses, challenges and advises on risk objectively* The second line of defence provides independent oversight, challenge and support to the first line of defence. Functions in the second line of defence include the Group risk team and the compliance team.	Third line of defence *Provides independent assurance of risk control* The third line of defence provides independent assurance to the Board that risk control is being managed in line with approved policies, appetite, frameworks and processes. It also helps verify that the system of internal control is operating effectively.

HSA Key Function Holders are in Tables 9.

Key function	Performance of function	Key function holder
Risk management function	EU Risk Manager with support from Group Chief Risk Officer	**Hanna Kam** Group Chief Risk Officer (reporting line to Bronek Masojada, Chair of the Hiscox SA Board and Director of the Ltd Board). The intention is to transition the key function role to the European Risk Manager of Hiscox SA, over time.
Actuarial function	Activities of the Actuarial function are outsourced to the Group Actuarial team, overseen by the Key Function Holder.	**Helen Cooper** Group Chief Actuary
Internal audit function	EU Senior Internal Auditor with support and oversight from the Group Internal Audit function	**Chris Hood – Group Head of Audit** will act as interim until the Luxembourg auditor is in post
Compliance function	EU Compliance Manager with additional support from the Group Compliance function	**Andrea Schmid** Head of Legal & Compliance Europe

Table 9

HSA Board & Committees

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

As shown in Figure 4 above, the Audit & Risk Committee (ARC) is a sub-committee which reports to the HSA Board.

The HSA ARC is chaired by an independent Non-Executive Director.

HSA Audit and Risk Committee

The HSA Audit and Risk Committee has delegated responsibility to provide Oversight and Challenge to the following Audit and Finance and risk management practices related to HSA:

Audit & Finance:

- the statutory audit process and annual financial statements;
- the performance of the internal audit function (on matters relating to HSA) and monitors the effectiveness of internal controls;
- HSA's reserving process; and
- HSA's financial returns and reports to the CAA and any other relevant regulator.

Risk Management:

- Provide advice to the Board on risk strategy, including the oversight of current risk exposures;
- Develop proposals for consideration by the Board in respect of overall risk appetite and tolerance, as well as the metrics to be used to monitor the Company's risk management performance;
- Ability to request specific risk reviews on areas of interest from across the business;
- Review and challenge the ORSA report at least annually and recommend it to the Board for approval;
- Provide oversight and challenge of the design and execution of stress and scenario testing;
- Provide oversight and challenge of the day-to-day risk management and oversight arrangements of the executive;
- Review results of validation activity over the financial modelling used to develop the SCR and assess the overall level of capital surplus;
- When requested by the Board, provide oversight and challenge of due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the governing body; and
- Provide advice, oversight and challenge as necessary to embed and maintain a supportive risk culture throughout the firm.

HSA Reserving Committee

The HSA Reserving Committee reports to the Audit & Risk Committee and is chaired by the CFO of the Group, who is also one of the Non-Executive Directors of HSA.

Following the pre-reserving meeting and any other analysis deemed necessary as a consequence, the Head of Reserving and CFO Europe will form their respective recommendations to the HSA Reserving Committee on the actuarial best estimate and management loadings.

The HSA Reserving Committee reviews the HSA Balance Sheet and makes a recommendation to the Audit and Risk Committee on the appropriate level of reserves to be held in the Company. The committee also oversees, monitors and manages the Reserve Risk of HSA.

As set out in Figure 4, the Board exercises its oversight of HSA's reserve position and challenges as necessary its adequacy via the reporting of the HSA Reserving Committee into the HSA Audit and Risk Committee.

In line with governance structure across the Hiscox Group representatives of HSA are attending the following Group meetings: the Group Credit Committee, the Cash and Capital Committee, the Divisional Investment Group, Information Security Group, Reinsurance Purchase Group and Exposure Management Group.

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

There have been no material changes in HSA's system of governance over the reporting period.

B.1.3. Remuneration policy and practices

HSA relies on a range of internal outsourcing partners for provision of a variety of services as outlined in sub-section B.7. 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

HSA including its Board members and key function holders.

The key principles of this policy are set out below.

Principles of remuneration policy

Hiscox Group's core business, including HSA'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 HSA. The variable pay elements for staff supplying services to HSA are structured with these strategic objectives in mind.

Return on Equity ("ROE") is a key measure of the company's performance and is used in the bonus plan. The use of ROE measures ensures profitability measures also take into account the capital base utilised in the generation of profits.

For long-term awards we use a measure of tangible net asset value per share plus dividends. This provides a simple measure of growth which complements the ROE measure used for the short-term incentive and adds 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 HSA is aligned with HSA'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 HSA'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. ROE ensures pay is determined on the basis of risk-adjusted performance. 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 are deferred and senior leaders take part in a Performance 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). The shareholding guidelines provide long-term focus and alignment with shareholders' interests; and

e) Malus and clawback – these are safeguard mechanisms to avoid payments for failure. Unvested compensation may be reduced, cancelled or have further conditions imposed. Hiscox Group Executive Directors are also subject to clawback on vested variable compensation.

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

This plan is limited to more junior and mid-level employees. HSA's key function holders and Board are not expected to take part in this scheme – only in the profit bonus scheme as outlined below.

Awards under this scheme are based entirely on individual performance ratings and are not directly linked to the Group's or individual business units' performance. 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. The PDR rating takes into account both financial and non-financial factors including individual performance and behaviours.

Annual incentive – profit bonus

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

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 HSA.

Performance Share Plan (PSP)

Share awards under this scheme are 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 performance conditions. These performance conditions are reviewed annually and set to align with the long-term objectives of Hiscox Limited, the ultimate parent company of HSA.

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 HSA.

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

There were no material transactions during the reporting period with shareholders, with the exception of a capital add on of €10m and a share premium of €13.5m. Neither were there material transactions with persons who exercise a significant influence on HSA or with members of the HSA Board.

B.2. Fit and proper requirements

B.2.1. Description of the skills, knowledge and expertise applicable to the persons who effectively run HSA or are responsible for significant functions

HSA maintains a fit and proper policy to ensure that individuals who effectively run HSA or are responsible for significant functions fulfil the following requirements under the Solvency II Directive at all times:

a) their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit); and

b) they are of good repute and integrity (proper).

All Board members and any member of staff who is responsible for a significant function is required to have the relevant professional qualifications, knowledge and experience to enable sound and prudent management. In addition, the Board needs to collectively hold the qualifications, knowledge and experience necessary to run a company of HSA's size and complexity.

The qualities of each individual are also assessed in the wider team context to ensure that collectively there is a wide breadth of skills, knowledge and expertise to ensure the effectiveness of the Board and the operation of key functions. The effectiveness of the Board is self-assessed annually and an external review is undertaken at least once every three years to ensure ongoing appropriateness.

Good repute, integrity, substantial management and leadership experience, a good understanding of regulators' expectations and strong people skills are overarching qualities sought from all Board members and individuals responsible for significant functions.

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

Fitness and propriety assessment on appointment

For all individuals, the assessment of fitness and propriety made at initial appointment will normally include (but may not be limited to), to the legal extent by each jurisdiction an:

a) interview with an appropriately qualified manager;

b) interview with other relevant senior experienced individuals as appropriate;

c) verification of academic and/or professional qualifications to the extent that they are relevant to the position;

d) collection of references from employers for the previous six years to the extent that they are relevant to the position;

For individuals who effectively run HSA or are responsible for significant functions, the assessment made at initial appointment will additionally include (buy may not be limited to) the following:

e) checks with credit reference and fraud agencies regarding financial soundness;

f) criminal record checks to the extent that it is legally permissible to do so, and where the role requires it; and

g) checks on disqualification from acting as a director or in relation to regulated functions, and

h) a declaration by the individual concerned that they are fit and proper.

Annual fitness and propriety assessment

For all individuals, the annual assessment of fitness and propriety will normally include (but may not be limited to):

a) a Performance Development Review by an appropriately qualified manager;

For individuals who effectively run HSA or are responsible for significant functions, the on-going assessment will additionally include (but may not be limited to) the following:

b) An annual communication to individuals outlining the matters which might adversely affect their propriety to carry out their duties and responsibilities and of which they must notify the Head of Group Compliance or the Group Human Resources Director.

Further, members of the HSA Board are subject to regular discussion and evaluation of board effectiveness.

B.3. Risk management system including the ORSA

B.3.1. Description of the risk management system

HSA has an established risk management framework in place which provides a controlled and consistent system for the identification, measurement, mitigation, monitoring and reporting of risk, illustrated in Figure 5 below. The risk management framework is designed to operate continuously. It is reviewed and enhanced regularly in light of changes to the risks HSA is exposed to, the external environment and evolving practice on risk management and governance.

The Board has ultimate responsibility for setting HSA'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.

Figure 5

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. HSA's material risks and the controls used to mitigate them are documented in its Risk and Control Register (RCR).

The RCR details HSA'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 reviewed and updated as HSA identifies and assesses the material risk exposures and the appropriateness and effectiveness of the risk management framework and system of internal control.

Risk appetite
Risk appetite is communicated in qualitative and quantitative terms, describing the level and types of risk the Boards are willing to assume within the Group or insurance carrier's risk capacity, to achieve their strategic objectives and business plan.

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

Risk mitigation
After risks are formally assessed, a decision is made on how to mitigate them to reduce exposure or maintain it at an acceptable level. Determining the most appropriate response involves understanding the associated costs and benefits.

Risk mitigation involves implementing and maintaining internal controls and other techniques to manage, reduce or eliminate risk exposures. Applying controls to reduce the likelihood or impact of a risk occurring is one of the available methods to respond to risks, in addition to accepting the risk without further action, taking action to avoid the risk completely, or transferring all or some of the risk – most commonly to other insurers.

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

Risk monitoring
HSA operates a number of practices and tools to monitor risk exposures, trends, effectiveness of controls and changes across the company.

Monitoring of risks occurs at various levels across the Group. 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
HSA 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.

All significant operational risk events or near misses that are a result of losses to Hiscox (financial or other) arising from inadequate or failed internal processes/controls, people and/or systems or from external events are recorded centrally by the Group Risk team.
The risk events reporting process is applicable to all risk categories, and all staff across the Group are responsible for communicating all such losses to the EU Risk Manager, who will escalate to the Audit & Risk Committee. To foster and streamline the process, Specific Point of contacts have been identified in each Functions within HSA.

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

Risk governance
At the heart of risk governance is the Board's oversight responsibility for risk management across the Group. The Board has ultimate responsibility for the overall effectiveness of business operations and the RMF, including oversight of the three lines of defence (described in section B1), ensuring appropriate and proportionate balance is maintained.

Within the second line of defence and until the Risk key Function Holder be transitioned to the EU Risk Manager, the Group Chief Risk Officer (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 Group CRO reports to the Group Chief Executive Officer with a dotted line reporting to the Group-level Risk Committee Chair. The Group CRO is also entitled to direct reporting to the HSA Board and has independent access to the Board's directors, including the HSA Audit & Risk Committee Chair.

The EU Risk Manager, as with the Group CRO, is independent from first line decision-making. It has the following key responsibilities:

- Designs, maintains and periodically reviews the risk management framework and facilitates its implementation across the Group;
- Provides challenge and advice to the business on the decisions it takes in relation to risk acceptance and mitigation;
- Identifies and assesses emerging risks;
- Monitors the general risk profile of the undertaking;
- Attends the Audit & Risk Committee;
- Produces regular risk reporting for the Audit & Risk Committees and Boards;
- Coordinates the Own Risk and Solvency Assessment process and facilitates the production of the ORSA reports for the HSA Board at least annually. This incorporates the risk and control self-assessment; and
- Challenging the adequacy of regulatory and internal capital requirements.

B.3.2. Implementation of the risk management system

The sub-sections below outline how the risk management framework is implemented and integrated in HSA'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, we compare our exposure against an established risk appetite to ensure each risk remains within acceptable levels.

As part of the Risk and Control Self-Assessment 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 EU Risk Manager. 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 are taken in account.

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

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

- Regular assessment of critical risks;
- Dashboard of topical risk issues at HSA and branch Level;
- Operational risk event reporting;
- Key risk section in each Board report;
- CRO report at each Board meeting;
- ORSA report;
- Results of risk and control self-assessment;
- Results of stress and scenario and reverse stress testing;
- Risk appetites and limits monitoring; and
- Risk profile monitoring.

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

ORSA process

The ORSA process comprises a number of connected processes and practices that HSA engages in to identify, measure, monitor, manage and report the risks to which it is exposed and to determine its corresponding capital needs on a current and forward-looking basis, in light of its business plan, risk profile, risk appetite and limits. This includes consideration of the following:

- HSA's approved strategy and business plan;
- The composition and dynamics of the current and forward looking risk profile;

- HSA’s capital requirements (regulatory and internal), whether they are appropriate for the business’s risk profile and whether HSA has sufficient assets available to meet them;
- The robustness of HSA’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 which is a critical consideration of the ORSA process.

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/Risk Committee as they are completed.

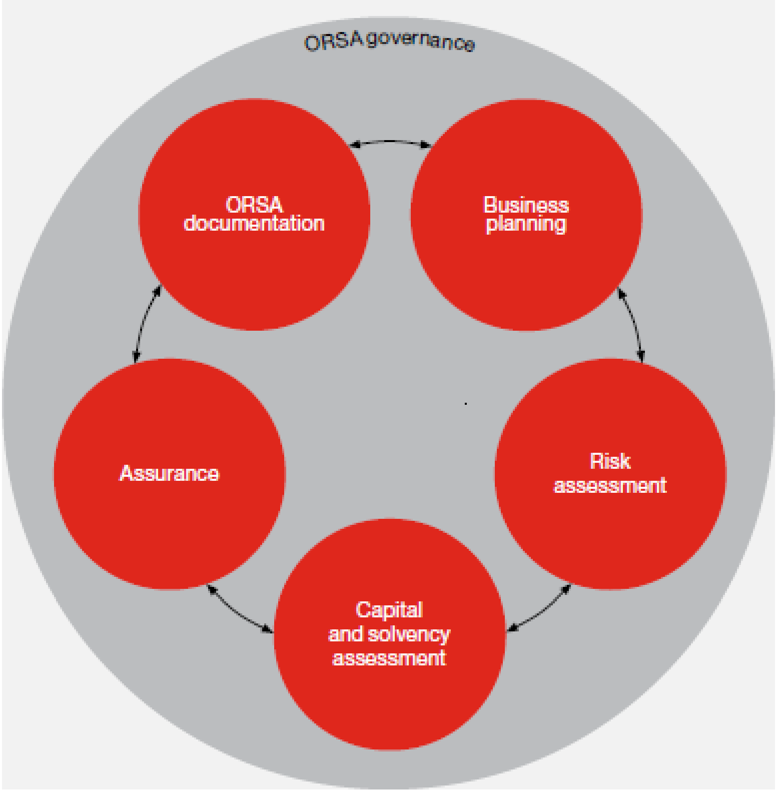

Figure 6

Determination and management of HSA’s own solvency needs

HSA calculates its regulatory capital assessment using the Solvency II standard formula, which is a high level assessment of required capital using market factors which for HSA’s Risk Profile is appropriate. The Board has set an overarching Risk Appetite Statement that it wishes to maintain a regulatory solvency ratio above 120% of the standard formula SCR in normal trading conditions.

The Hiscox Group has further developed an internal economic capital model, the Hiscox Integrated Capital Model, (HICM), which is used by insurance entities within the Group to assess their own view of their risks and capital requirements. The internal capital assessments within this report have been calculated using the HICM, unless stated otherwise. The HICM was used during HSA’s 2020 business planning process for the associated capital analysis and is consistent with how HSA sees risks emerging and accumulating.

The internal economic capital view provided by the HICM allows a more detailed, HSA-specific view of its capital requirements, which is a useful internal tool for the business and the ORSA. HSA regularly reviews the suitability of the standard formula and there are currently no plans for HSA to use the HICM to calculate its regulatory capital requirements.

B.4. Internal control function

B.4.1. The internal control system

The following diagram illustrates the five components of the system of internal control. These are all reinforced by the roles of the HSA Board in owning, steering and overseeing the effective design and implementation of the system of internal control within the formal risk governance framework.

Figure 7

The control environment is the collective set of standards, processes and structures that provide the basis for establishing and maintaining internal control across HSA.

HSA faces a variety of risks from both external and internal sources. Risk assessment is the process by which HSA identifies and assesses the material risks which could influence the achievement of its objectives.

Control activities are the actions that individuals take to implement and operate HSA'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 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 HSA Board and Audit & Risk Committee as appropriate, to enable them to discharge their oversight responsibilities.

Risks and controls are monitored by risk and control owners through normal day-to-day business operations. Risk Committees are held quarterly to monitor HSA'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 Register ("RCR") review and update process.

B.4.2. The compliance function

The 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 HSA compliance function consists of local compliance professionals led by the Head of Legal and Compliance Europe, who is reporting into the CEO Europe creating a fully vertically integrated Compliance function in Europe, with matrix oversight from the Hiscox group compliance function.

The HSA compliance function provides regular reports to the HSA Board on the management of compliance risk and the impact of any future changes in the regulatory environment on the Company. Significant control issues or issues affecting more than one business unit only may be escalated at Hiscox Group level.

B.5. Internal audit function (Audit)

B.5.1. Implementation of the internal audit function

Hiscox Group's internal audit function operates at a Group level and is part of the internal control system. There is a senior internal audit position based in Luxembourg, which is responsible for HSA internal audits. The function provides objective and independent assurance and advice to the Group's Audit Committees (including HSA's Audit and Risk Committee) and the Group Boards of Directors (including the HSA Board) regarding the processes and systems of internal control and risk management operating in the Group.

Internal audit's scope extends to all legal entities, including HSA, and business units forming part of the Hiscox Group.

Internal audit is responsible for the development of an internal audit plan ('the plan'), with a corresponding budget. The plan typically details proposed audits over the next 12 months. Internal audit reviews the plan regularly and advises the HSA Audit Committee of any material alterations to it. Any impact of resource limitations and significant interim changes are communicated promptly to the Hiscox Ltd Audit Committee and Executive Management.

The plan is developed using a risk-based approach, including input from Executive Management. Prior to submission to the Hiscox Ltd Audit Committees (including the HSA Audit and Risk Committee) for approval, the plan is shared with Executive Management.

In setting its plan scope, internal audit takes into account business strategy and forms an independent view of whether the key risks to the Group and its individual entities such as HSA have been identified, including emerging, critical, and systemic risks, and assessing how effectively these risks are being managed. Internal audit's view is informed, but not determined, by the views of management and/or the risk function. In setting its priorities and deciding where to carry out more detailed work, internal audit 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.

In carrying out its duties and responsibilities, internal audit is entitled to:

a) full and unrestricted access to all of the Group's activities, records, property and information;

b) full and free access to the Hiscox Ltd Audit Committee, and other subsidiaries' Audit Committees including HSA's;

c) allocate and apply resources, scope of work and audit techniques, set frequencies and select appropriate subjects in order to meet its objectives; and

d) the assistance of staff across the Group where necessary to fulfil its objectives.

In addition, internal audit has free and unrestricted access to the Board and other subsidiaries' Boards. The Head of Group Internal Audit 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 internal audit's remit.

B.5.2. Maintaining an independent internal audit function

Internal audit is independent of the activities that it audits, in order to ensure unbiased judgements and impartial advice to the Hiscox Ltd Audit Committees and to management. In order to ensure this independence and objectivity, the internal audit team members report directly to the Head of Group Internal Audit, who reports directly to the Chair of the Hiscox Group Audit Committee. Where internal audit 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, internal audit 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 HSA is responsible for:

a) calculating the technical provisions (an estimate of the amount the firm 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;
b) assessing the sufficiency and quality of the data used in the above calculation;
c) monitoring the claim experience (the amounts paid and reported to HSA) and comparing those against the amounts predicted by the actuarial models;
d) contributing to the effective implementation of HSA's risk management system, including risk modelling, ORSA and involvement in the calculation of the capital requirements;
e) providing an opinion on the underwriting policy of HSA; and
f) providing an opinion on the reinsurance arrangements of HSA.

The HSA 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 HSA actuarial function consists of the Hiscox Group Chief Actuary and various other members of the Group actuarial team. The Hiscox Group Chief Actuary produces reports each year on the above matters, setting out their conclusion and the underlying analysis supporting this conclusion. The Chief Actuary and the actuarial function escalate any relevant matters to the Risk Committee of HSA and the Executive Committee of the Hiscox Group as appropriate.

B.7. Outsourcing

B.7.1. The outsourcing policy

HSA has adopted the Hiscox Group Outsourcing Policy. The outsourcing policy sets out the responsibilities and considerations for HSA 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 process for selecting and managing outsourced services, governed by this policy, that satisfy all applicable regulatory requirements whilst optimising the value HSA 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 that may result in reduced control.

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 HSA.

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

The process covers:

- Identification of potential suppliers;
- Terms of the outsourcing contract;
- Supervision of the outsourced service;
- Monitoring and management of the contract; and
- Orderly exit from the contract.

In addition to services outsourced by the branches of HSA, HSA relies on a range of internal outsourcing partners for provision of a variety of services as outlined below:

- Hiscox Underwriting Group Services Ltd (HUGS)
  IT services, actuarial services, temporary provision of risk management key function, temporary provision of internal audit key function, investment management services, as well as capital modelling and capital management support services, outwards reinsurance support services, investment management series, and other group services.

- Hiscox Underwriting Ltd (HUL)
  HUL is an intermediary which is fully owned by the Hiscox Group that provides insurance mediation and underwriting services to HSA and which is authorised through delegated authority to write business on behalf of HSA but only with regards to UK customers with an EEA risk.

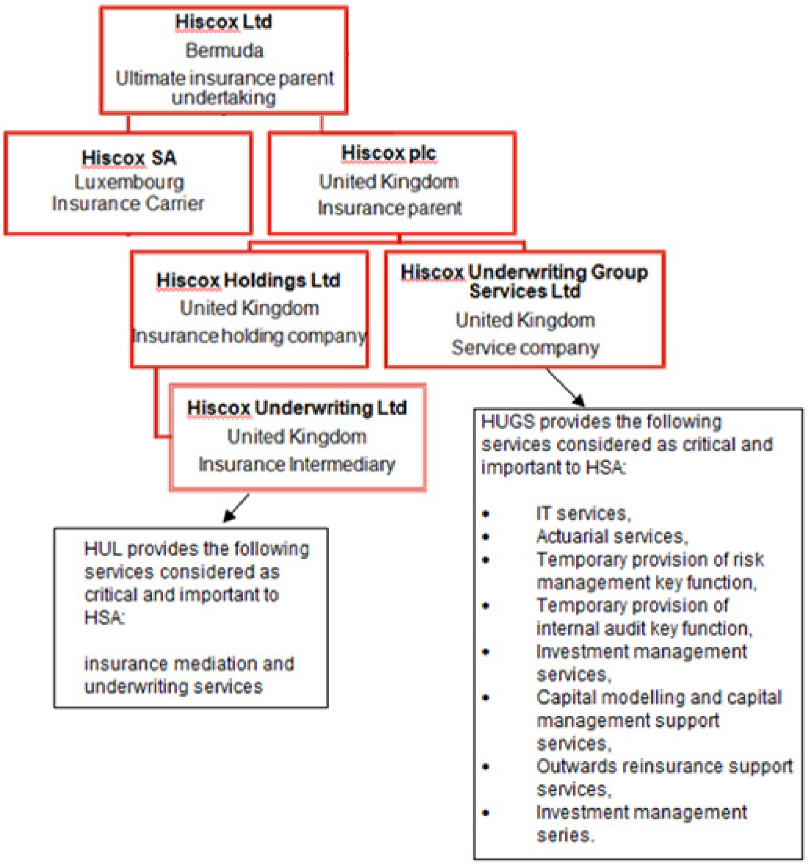

Figure 8

The table below identifies the operational functions that are outsourced as well as the responsible Board member:

Function	Main Activities	Performance of function	Function Holder	Hiscox SA Board Member responsible
Investments	• All matters in relation to management of investments for Hiscox SA • Monitoring adherence of Investment Managers to guidelines issued by the firm	All investment management activities are outsourced to the Group Investments team	**James Millard** Group Investment Officer	**Aki Hussain**
Outward Reinsurance support services	• Purchase of reinsurance activities	All reinsurance purchasing activities are outsourced to the Group Reinsurance team	**Rob Caton** Head of Underwriting Risk and Reinsurance	**Stephane Flaquet**
IT Services	• Provision of IT services - see section 7.6	See section 7.6	**Gustavo Serpa** Head of IT Europe	**Stephane Flaquet**
Modelling and capital management support	• All matters in relation to modelling of capital requirements for Hiscox SA	All capital modelling activities are outsourced to the Group Capital Modelling team	**Craig Martindale** Head of Group Capital Management	**Aki Hussain**

Table 10

B.8. Adequacy of the system of governance and other information

The Board considers the HSA system of governance to be appropriate given the its first year of operational activity and acknowledges the need to increase the maturity level to achieve an established, robust system of governance in accordance with the nature, scale and complexity of the risks inherent in its business.

B.9. Any other material information

All material information regarding the system of governance of the insurer is included in the sections above

C. Risk profile

HSA uses the Risk Profile tool from the HICM to monitor its risk exposures over the next calendar year by risk category. It sets out the potential upside and downside risk associated with the proposed 2020 business plan for each risk type and in aggregate, with estimated likelihoods of occurrence (return periods). Changes in the Risk Profile are monitored throughout the year and the outcomes reported to the Audit & Risk Committee.

Table 11 below shows the Risk Profile for the 2020 business plan, as calculated by the HICM.

Business Plan Risk Profile (€m)

	Risk Measurement									
HSA €m	**Upside**		**2020**		**Downside**					
Risk Type	**1 in 20**	**1 in 10**	**Business Plan**	**Model Expected**	**1 in 10**	**1 in 20**	**1 in 40**	**1 in 100**	**1 in 200**	**1 in 500**
UW – Business plan	10	9	7	7	4	3	1	-2	-5	-8
Reserving	4	4	0	-0	-4	-5	-7	-9	-10	-12
Market – Investment	7	5	-1	-1	-7	-10	-12	-18	-23	-30
Market – FX	4	3	0	-0	-3	-4	-5	-6	-6	-7
Credit - Reinsurer	0	0	0	-0	-0	-0	-0	-1	-3	-6
Credit - Broker	-0	-0	0	-0	-0	-1	-2	-5	-7	-9
Operational	0	0	0	-2	-5	-8	-11	-15	-18	-21
Sum of above	25	21	6	4	-16	-25	-37	-55	-70	-92
Diversification	-9	-8	0	-0	9	14	21	32	41	54
Total – Profit & Loss	16	14	6	4	-7	-11	-16	-23	-29	-38

Table 11

The following sections provide a summary of each of HSA's material risks including:

- a description of the risk;
- the key mitigations in place to manage the risk;
- the measures used to assess the risk;
- a description of the main risk concentrations; and
- the material changes to the risk exposure over 2019.

Note that this is not exhaustive of all risks to which HSA is exposed.

C.1. Underwriting risk

C.1.1. Risk description

The predominant risk to which HSA 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'.

Underwriting risk

The risk that insurance premiums will not be sufficient to cover future insurance claims and associated expenses. It also encompasses people, process and system risks directly related to underwriting, such as human error in paying invalid claims or misquoting premium prices.

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	The risk of failing to price policies adequately, or making poor risk selection decisions.
		Authority Breach	Accepting risks outside of agreed underwriting parameters or where authority limits have been breached.

Table 12

Reserve risk

The risk of unsuitable case reserves (for example, over- or under-reserving) and/or insufficient technical reserves in place to meet incurred losses and associated expenses. HSA makes financial provisions for unpaid claims, defence costs and related expenses to cover liabilities both from reported claims and from ‘incurred but not reported’ (IBNR) claims. If insufficient reserves were put aside to cover our exposures, this could affect the HSA’s future earnings and capital.

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 13

C.1.2. Risk mitigation

HSA has established controls to manage and mitigate its key underwriting and reserve risks.

Examples of some key controls in place for HSA’s underwriting, reserving and claims risks include:

- Underwriting and reserving reviews;
- Underwriting and claims authority letters; and
- Claims underwriting guides.

Peer reviews are in place for underwriting, 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 will be 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 HSA to monitor its exposure to risk geographically and by line of business.

Claims underwriting guides help to ensure that a consistent approach is taken to managing and reserving for claims. This reduces subjectivity in the level of reserves retained for claims with similar attributes.

C.1.3. Measures used to assess risk

Underwriting risk and reserve risk are both explicitly modeled within the risk profile (see Table 12 and Table 13).

For underwriting risk and reserve risk, measurement is performed via the use of risk and capital models, including the risk profile, and expert judgment. The risk profile tool allows the Group and carriers 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 HSA's most recent resting.

C.1.4. Risk concentration

HSA 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. The geographic spread during 2019 in Europe was mainly in France and Germany, and the type of risks are mainly first party property exposures and third party liability. 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

Underwriting risk within the risk profile shows a deterioration of €12m from the mean business plan profit of €7m for 2020 at the 1-in-200 return period. As HSA cedes a significant portion of its business, underwriting risk is not the material driver of risk. The main contributor of underwriting risk for HSA is driven by exposure to cyber lines.

Reserve risk volatility is at a similar level to underwriting risk. In particular, as HSA cedes a significant portion of its reserves through the quota share arrangement with HIB, reserve risk represents a less material driver of risk than both market and operational risks.

As our cyber portfolio grows and the understanding of this ever changing peril matures, HSA is currently reinsuring 65% of its underwriting Cyber portfolio externally via Quota Share contracts and targets as from 2020 to further increase the rate to 73.75%. In addition, the Company continues to strengthen its knowledge, understanding and capabilities from a technical knowledge and data management to better control its risk exposure, its pricing, and claims reserving management.

With the discovery, spread and resulting impact of Covid-19 after the end of the reporting period. This has resulted in a general increase in claims notifications and exposure. Several lines are impacted immediately as a direct result of the event and it is expected that the resulting lowering of economic activity will raise exposure in lines indirectly as well as reducing demand as a result of the strain on smaller companies.

We are monitoring the situation closely and updating our response as required.

C.2. Market risk

C.2.1. Risk description

Market risk is the threat of unfavourable or unexpected movements in the value of HSA's assets and/or the income expected from them.

Key market risk exposures include:

Risk type	Risk grouping	Risk name	Risk definition
Market	**Investments**	**Liquidity Risk**	Inability to meet cash requirements from available resources within appropriate/required timescales.
		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 and/or tactical asset allocation limits.

Table 14

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

The Prudent Person Principle is embedded in Solvency II and is used to guide HSA's investments.

HSA invests in assets and instruments that can be properly identified, measured, monitored, managed, controlled and reported on. They are invested in a manner to ensure the security, quality, liquidity and profitability of the portfolio, and such that they are available to the company in the relevant currency as required. Assets held to cover technical provisions are also invested in a manner appropriate to the nature and duration of HSA's liabilities. They are invested in the best interest of all stakeholders, taking particular account of HSA's customers.

Assets are diversified in such a way that there is no over reliance on, or concentration of risk in, any particular asset, issuer, group of undertaking, geography, asset class or other risk attribute in the Group or divisional portfolios.

C.2.3. Risk mitigation

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

Examples of some key controls in place for place for HSA's market risks include:

- Currency matching and asset-liability matching strategy;
- Minimum cash limits; and
- Investment manager performance management.

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

HSA has a minimum amount of cash that must be retained at all times. This helps to ensure planned and unforeseen liabilities can be covered in a timely manner, without impacting the investment portfolio.

HSA uses external investment companies to manage its portfolio. The investment managers must operate within defined constraints set by HSA, and they provide regular updates on performance, which is reported to HSA's management and the Divisional Investment Group.

C.2.4. Measures used to assess risk

Measurement of Market risk is performed via the use of risk and capital models, stress and scenario and reverse stress testing and expert judgement. For example, Market – Investment and Market – FX risk are both modelled as part of the HSA's modelled Risk Profiles. The Risk Profile tool allows clear measurement of actual exposure against parameters that articulate the amount of risk it is prepared to accept.

C.2.5. Risk concentration

Concentration risk arises when too much exposure is held in assets which respond to similar risk factors. Assets are diversified in such a way that there is no over reliance on, or concentration of risk in, any particular asset, issuer, group of undertaking, geographical area, asset class or other risk attribute in the Group or Divisional portfolios.

Permitted asset classes within the investment portfolio are bonds, risk assets (including equities), cash and derivatives.

The majority of assets held by HSA, i.e. about 94%, comprise cash and bonds. In the bond portfolios, the largest exposures are to European governments bonds and corporate bonds issued EUR. These exposures vary over time, but might typically each comprise around half the bond allocation. The largest individual exposures are to German and Netherland governments at 5% of bond exposure. For corporate bonds, there is a wide range of holdings, covering multiple sectors and in excess of 100 issuers. The bond portfolios are actively managed and so individual positions and exposures are subject to change over time depending on the decisions of the investment managers. Whilst the exposures shown in table 15 may change over the coming year, concentrations are limited by the portfolio restrictions applied to each mandate.

C.2.6. Material changes over the reporting period

Continuous threats of escalations of protectionist measures between the US and China/EU generating markets slowdown and uncertainties with potential impact on the Company's GWP performance across the branches. Claims in correlation to insolvencies would increase and HSA's investment return could also be affected. The Company monitors the market stability and would potentially adapt its operating plan if confirmed.

There have been significant changes to the global economic environment after the end of the 2019 reporting period. This relates to the discovery and spread of Covid-19, also known as "Coronavirus". Global mobility is significantly reduced, and in many cases ceased. This has resulted in lower economic activity, and large losses by companies, especially smaller companies or companies that are not set up to facilitate remote working.

The global economy is expected to remain under pressure for a significant amount of time until the situation has stabilised or a cure for the virus has been found. We are monitoring the situation closely and updating our response as required.

Providing support to our customers while safeguarding the wellbeing of our employees and partners is our priority.

C.3. Credit risk

C.3.1. Risk description

Credit risk is defined as the risk of loss or adverse financial impact due to default by counterparties to which HSA is exposed.

The inherent credit risk exposure for HSA is material with the quota share agreements in place with HIB to cede 90% of GWP (across internal and external reinsurance). Currently the quota share operates with a funds withheld agreement between HSA and HIB which mitigates HSA's residual risk exposure and hence is assessed as not a critical risk for HSA. It is worth noting that HSA will continue to review the funds withheld structure to ensure its continued appropriateness and benefit for HSA.

C.3.2. Risk mitigation

HSA has established controls to manage and mitigate its key credit risks.

Examples of some key controls in place for HSA's credit risks include:

- Reinsurance counterparty limits;
- Broker exposure monitoring; and

- Bank exposure monitoring.

To reduce credit risk exposure to reinsurers, HSA has limits in place to manage our exposure to reinsurers based on their credit rating. HSA can request collateral to be held from reinsurers, which can be used to pay claims if the reinsurer is downgraded or defaults on its obligations.

Broker credit risk is also closely managed, through an approval process for new brokers and monitoring of due and overdue premium.

Credit risk arising through exposure to banking counterparties is controlled in a similar way, through approval of the counterparties based on credit worthiness and monitoring of individual exposure and credit ratings.

C.3.3. Measures used to assess risk

HSA'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. HSA's gross receivables are exposed to the underlying internal intermediary's broker credit risk.

Reinsurance credit risk and broker credit risk are both explicitly modelled within the risk profile.

Credit risk is included in HSA's stress and scenario testing. Please see section C.7.1. for further information and the results of HSA'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, bonds issuers, brokers or other counterparties.

An analysis of HSA's current exposure to credit risk (at market value) as at 31 December 2019 is detailed in Table 15:

Credit risk exposure	**€ 000**
Bonds	312 005
Collective Investments Undertakings	22 214
Derivatives	72
Deposits other than cash equivalents	327
Reinsurance Recoverables	24 080
Gross receivables arising from insurance and reinsurance contracts	10 788
Trade receivables	16 631
Cash and cash equivalents	59 548
Total	**445 667**

Table 15

Further information on the risk concentration on HSA's bond portfolio is detailed in sub-section C.2.5.

C.3.5. Material changes over the reporting period

HSA started to underwrite business as of 1 January 2019. As such, there was no prior credit risk exposure.

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 HSA 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
Market	**Investments**	**Liquidity Risk**	Inability to meet cash requirements from available resources within appropriate/required timescales.

Table 16

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

C.4.2. Risk mitigation

HSA has established controls to manage and mitigate its key liquidity risks.

Examples of some key controls in place for HSA's liquidity risks include:

- Minimum cash limits; and
- Cash and Capital Committee meetings

As mentioned in section C.2.3, HSA has minimum cash requirements that must be retained at all times.

Quarterly Cash and Capital Committee meetings are held to monitor the liquidity position of HSA. Any significant breaches of cash reserve limits are also reported to the Cash and Capital Committee.

C.4.3. Measures used to assess risk

Cash flow analyses are performed on a regular basis to ensure sufficient cash is available to cover liabilities due and cash levels are monitored on a daily basis. Furthermore, additional liquidity is available from holdings in short dated government bonds if required, both at a Group-level and within HSA's own investment portfolio.

The Hiscox Group cash and capital committee plays a key role in governance and oversight of liquidity risk for the Group, including HSA. The committee monitors the short and medium term cash flow and liquidity, and takes action where appropriate.

C.4.4. Expected profit included in future premiums

The expected profit included in future premiums is €31,638. This represents the profit that is expected to materialise from contracts which have been bound by HSA but the company is yet to go through the risk exposure period to which the premium relates. The variance year on year is driven by a change in mix of business of future premiums at 31 December 2019.

C.4.5. Risk concentration

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

The bond portfolios typically hold approximately half their assets in European government bonds, which are highly liquid, particularly for the governments predominantly held. The corporate bond exposures are to over 100 issuers, all of which have investment grade credit ratings. HSA's exposure to equities is held via shares and funds that are traded on internationally recognised stock exchanges or are otherwise open ended vehicles which deal on a daily basis, and therefore can be expected to be realised quickly.

C.4.6. Material changes over the reporting period

Although not modelled explicitly, there is not believed to be any change in the liquidity risk profile. 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 the risk of direct or indirect loss resulting from internal processes, people or systems, or external events.

Key operational risk exposures include:

Risk type	Risk grouping	Risk name	Risk definition
Operational	People	Retention & Organisational Gaps	Loss of implicit knowledge and experience of key individuals or teams, or failure to recruit the necessary amount or caliber of human resources
	Systems	IT/Systems Failure	Major IT, systems or service failure (e.g. systems are disrupted, unavailable or insecure).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 or the interdependencies across projects are not appropriately managed.

Table 17

C.5.2. Risk mitigation

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

<u>People risks</u>
- Succession planning
- Training and development programs
- Employee performance framework

<u>System risks</u>
- Data back-up
- IT access protocols
- IT disaster recovery plans
- IT security (e.g. firewalls, email scanning and content filter)

<u>Processes risks</u>
- Project framework
- Business continuity plan (BCP) testing
- Information Security Committee monitoring of data security and privacy

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 also reported to the risk function for analysis and to understand the root cause of each event. These are also reported to the HSA Risk Committee.

C.5.4. Risk concentration

Concentration of operational risk is mitigated by a decentralisation and federation of its organisation by country therefore providing multiple of locations across nine countries in Europe. The Company also offers remote working capabilities therefore limiting the risk of reliance on physical offices to trade. HSA systems being also federated by country therefore also provide mitigation in case of system collapse, and data redundancy is provided via backups into different location servers.

The Personal Development Review process and training and development programme aims to manage talent in order to reduce single person dependencies on key people as well as staff turnover. Documentation of policies and procedures also limit the reliance on specific individuals.

C.5.5. Material changes over the reporting period

Operational risk amounted to €15.37m as at 31 December 2019, making up 23.1% of the standard formula SCR capital in 2019.

C.6. Other material risks

C.6.1. Description of other material risks

Strategic risk

Strategic risk is the possibility of adverse outcomes that may result from strategic 'bets'/business initiatives taken or not taken by HSA. This may include business expansion or contraction, mergers and acquisitions, negative impacts to reputation or brand management, or failure of the Board to provide adequate oversight of the business or make appropriate business decisions.

Key strategic risk exposures include:

Risk type	Risk grouping	Risk name	Risk definition
Strategic	**Strategic**	Strategy evolution and execution	Ineffective business plans and strategies, decision making or resource allocation, or failure to adapt to changes in the business environment.

Table 18

Regulatory and legal risk

The insurance industry is a highly regulated sector and, as such, is exposed to continuous regulatory change. The 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 risk is the risk of failing to act in accordance with relevant regulatory requirements in all relevant jurisdictions or a deterioration in the quality of relationship with one or more regulators. Legal risk is the risk of failing to act in accordance with relevant legal requirements in all relevant jurisdictions.

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.

Table 19

Group risk

Group risk encompasses the risks arising from the interconnected nature of the Group and its entities. Contagion risk arises from HSA's internal reinsurance and internal transactions risk arises from inter-company transactions and services arrangements not being carried out in a way that satisfies legal or regulatory requirements.

None of HAS's Group risks within the RCR are currently classified as Critical.

C.6.2. Risk mitigation

Strategic risk

Examples of some key controls in place for HSA's strategic risks include:
- Board review of business plans and operating budgets;
- Business plan monitoring; and
- Group wide mandatory regulatory compliance training.

Regulatory and legal risk

Examples of some key controls in place for HSA's regulatory and legal risks include:
- Management and oversight of regulatory engagement by the EU Head of Legal and Compliance

Group risk

Examples of some key controls in place for HSA's Group risks include:
- Arms-length structure to reinsurance transactions;
- Annual review of the register of shared reinsurance purchases by the ARC; and
- Entity-specific governance.

C.6.3. Measures used to assess risk

Strategic risk, regulatory and legal risk and Group risk are not modelled quantitatively at a risk level by HSA. 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.

C.6.4. Material changes over the reporting period

HSA has been operationally ready since 1st of January 2019 and maturity of the legal entity processes, governance, organisation as well as its people capability is being reviewed and uplifted to support the organisation becoming more mature, efficient and robust. A number of actions are on-going to increase the maturity within 2020.

C.7. Any other information

C.7.1. Stress and Scenario testing

HSA uses stress and scenario testing (SST) to assess the robustness of the Business Plan and capital bases to a wide range of potential threats and issues, and to identify plausible and feasible Future Management Actions that could be taken under those scenarios to protect the business and facilitate its viability.

HSA uses a variety of methods to undertake such analysis, as follows:
- Stress tests assess the impact of a change in an individual factor (e.g. standalone/individual basis stresses) on the business.
- Scenario tests assess the impact of a change in the overall operating environment resulting from a number of factors or a particular event (e.g. Realistic Disaster Scenario ("RDS") analysis; aggregations

of stresses; or a series of events across different risk types that could impact the business either simultaneously or through knock-on effects).
- Reverse Stress Testing ("RST") assesses scenarios and circumstances that would render the business model unviable. Hiscox defines unviability as the business being no longer willing or able to write premium or the point at which crystallising risks cause the market to lose confidence in the business and, therefore, the projected business plan targets cannot be met. Business unviability will not necessarily be the point at which the business runs out of capital as the business model could fail well before regulatory capital is exhausted.
- Forward looking assessments consider the impact of events on a multi-year basis (e.g. from 2020 to 2022).

Hiscox has a library of stress, scenario and reverse stress tests which is reviewed regularly to ensure it remains relevant. The tests that are viewed as most appropriate, considering business interests, in each cycle are selected and conducted.

To define and develop the stress tests and reverse stress tests, a series of meetings were held with business experts to consider how the business would be affected under each of the suggested scenarios and to discuss the controls, monitoring and management actions in place to reduce the impact of the events. This generated the initial assumptions used in modelling the outcomes of these scenarios.

In all scenarios, a number of potential mitigating factors and plausible Future Management Actions have been identified to address the potential adverse effects on HSA's solvency, liquidity and viability. Potential constraints on these Future Management Actions have also been considered (e.g. legislative matters, economic environment, and reputational impact).

C.7.2. Exposure arising from off-balance sheet positions and/ or special purpose vehicles (SPV)

HSA does not presently 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 HSA's risk profile has been disclosed in sub-sections C.1 to C.6 and sub-sections C.7.1 to C.7.2 of this document.

D. Valuation for solvency purposes

D.1. Assets

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

Table 20 provides an analysis of HSA's total assets on a Solvency II basis compared to the amounts shown in the statutory financial statements as at 31 December 2019.

Balance Sheet (€000)	**Solvency II**	**LUX GAAP**	**Difference**
Goodwill	0	291	(291)
Deferred acquisition costs	0	59 425	(59 425)
Intangible assets	0	23 994	(23 994)
Deferred tax assets	1 649	0	1 649
Property, plant & equipment held for own use	19 111	4 203	14 908
Bonds	312 005	312 005	0
Government Bonds	31 326	31 326	0
Corporate Bonds	280 680	280 680	0
Collective Investment Undertakings	22 214	22 214	0
Derivatives	72	72	0
Deposits other than cash equivalents	327	327	0
Reinsurance recoverables	24 080	425 966	(401 886)
Insurance & intermediaries receivables	10 788	126 459	(115 671)
Reinsurance receivables	0	202 025	(202 025)
Receivables (trade, not insurance)	16 631	16 631	0
Cash and cash equivalents	59 548	59 548	0
Total assets	**466 426**	**1 253 161**	**(786 735)**

Table 20

Unless otherwise stated, the Solvency II basis of valuation for all assets follows fair value measurement principles. There were no changes to the recognition and valuation bases over the period. Further details of the assets and explanations for material differences between Solvency II and financial statement valuation basis are set out below.

Goodwill

Under Solvency II this assets are valued at zero.

DAC (Deferred Acquisition Costs)

Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date. 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 sub-section D.2). DAC is not included within the Solvency II technical provisions as it is not a future cash flow.

Intangible Assets

Under Lux GAAP, intangible assets are recognised where they can be identified separately, measured reliably and it is probable that they will be recovered by directly related future profits. These assets are held at cost less accumulated amortisation and impairment losses and are amortised on a straight-line basis over the useful economic life which is deemed to be 5 years in accordance with Luxembourg requirements.

For valuation purposes, and according to solvency II, the Company has to demonstrate that these assets can be sold separately and, moreover, it would be necessary to demonstrate that there is an active market in which similar intangible assets are traded. Given that the Company's assets considered in this class do not meet these requirements, their value for solvency purposes is zero.

Deferred Tax Assets

The difference results from the application of the tax rate to losses with taxable temporary differences implicit in the balance sheet for solvency purposes, that is, after adjustments with a negative impact on own funds. These deferred tax assets are valued at the tax rate expected to be in force when the temporary difference reverses. These temporary differences are expecting to reverse in the following year, and the corresponding tax rate has therefore been used to value these assets and liabilities.

Property Plant and Equipment

The difference results from the application of the IFRS 16 for Solvency II purposes.

Investment in bonds and collective investment undertakings

Financial assets are valued at market value at the balance sheet date. For Lux GAAP a value adjustment is recorded where the market value is lower than the purchase price. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Accrued interest on Bonds is classified as receivables (trade, not insurance) under Lux GAAP but is considered a component of the bond valuation under Solvency II.

Reinsurance recoverables

Reinsurance recoverables are a component of the Solvency II technical provisions. Further details and the differences between the Lux GAAP and Solvency II valuation bases are explained in sub-section D.2.

Insurance and intermediaries receivables

Insurance and intermediaries receivables are recognised as assets in the Lux GAAP balance sheet.

Under Solvency II the amount due is considered under technical provisions whilst the amount past due (i.e. when they remain unpaid in the first business day after the payment deadline) should be recognised as an asset in the Solvency II balance sheet.

When assessing the amount of past due receivables at the valuation date, the Company assessed on a look through basis the internal agencies brokers past due amounts of €10.8m. Thus, the difference between the LUX GAAP and the Solvency II balance sheet relates to the past due amounts at the valuation date. Also, the amounts past due were not considered in the calculation of Solvency II technical provisions (as described in sub-section D.2).

Reinsurance receivables

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.

Receivables (trade, not insurance)

Receivables (trade, not insurance) include corporate tax and intercompany balances receivable from fellow group companies. The amounts presented are considered to be representative of fair value as these are the amounts which must be received in order to settle the obligation.

Under Lux GAAP, 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

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

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 relating to claim events prior to the valuation date (claims provisions), and ii) 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 (premium provisions).

- Risk margin is 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 and reinsurance obligations over the lifetime of the policies (i.e. the amount required to transfer liability to a third party).

Table 21 shows the value of the discounted technical provisions as at 31 December 2019 for HSA's material Solvency II lines of business.

Solvency II line of business (€000)	Gross	Outward reinsurance	Net	Risk margin	Technical provisions
General liability	223 641	65 332	158 309	3 164	161 473
Fire and other damage to property	84 497	-38 625	123 122	2 461	125 583
Other	7 171	-2 627	9 798	200	9 998
Total	**315 309**	**24 080**	**291 229**	**5 825**	**297 054**

Table 21

HSA started to underwrite business as of 1 January 2019, and as such there are no comparison values for 2018.

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 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 used 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 review these adjustments, and where appropriate, they are incorporated into the analysis.

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 estimate recoveries.

Events not in data (“ENID”) are potential events which are not adequately contained within historical claims experience. HSA 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 is a low/medium/high uplift of best estimate reserves based on expert judgment.
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 HSA 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 until the business has run off. The amounts are then discounted back to the current time period. This regulatory capital requirement calculation excludes new business and market risk.

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 used 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;
- Allowance for future inflation;
- Reinsurance recovery rates – details of reinsurance programme, historical recoveries;
- Reinsurance payment lags – discussions with the Reinsurance team and based on historical claims experience;
- Bound but not incepted (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 whether it has been classified as being high, medium or low risk of ENIDs and compared to a statistical projection approach for further consideration;
- 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.

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) Initial Expected Loss Ratio (IELR) selection

IELRs for each class of business have been selected by analysing historical performance and expected changes in premium rates and inflation. 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. Historically, market-wide rate monitoring has tended to under-estimate the effect of a softening market on profitability. The IELR is a key driver of HSA's technical provision estimates for the most recent years of account.

b) 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. This risk can potentially be exacerbated when growing in a soft market.

c) New classes of business

There are a number of classes of business written within HSA for which there is a limited amount of historical data on which to base the 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.

d) Long-tailed classes of business

Longer-tailed classes are subject to uncertainty arising from a number of different factors; for example, claims inflation and 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.

e) 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 years of account will be subject to additional uncertainty.

f) Unincepted exposure

HSA is also required to include an allowance for unincepted bound 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.

g) Events not in data ("ENID") loadings

Events not in data ("ENID") are potential events which are not adequately contained within HSA's historical claims experience. HSA 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. The ENID output is compared and validated against an alternative statistical approach.

h) 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 basis

The bases, method and assumptions used in the valuation of technical provision under Solvency II are consistent with those under Lux GAAP except for the adjustments listed in Table 22. The comparison in table 22 is done on a net basis.

Conversion from Lux GAAP to Solvency II basis (€000) net of reinsurance	**Total**	**General liability**	**Fire and other damage to property**	**Other**
Lux GAAP Technical Provisions (net of DAC)	50 297	22 478	11 201	16 618
Elimination of 100% net UPR	1 685	2 589	103	-1 007
Add back DAC	-10 821	-5 882	-4 575	-364
Future premium incepted net of commission	265 688	145 817	111 196	8 675
Elimination of margin for prudence	-2 195	-1 193	-928	-74
Future premium on unincepted	-45 902	-34 702	-10 353	-847
Net future claim cost (unearned + unincepted)	8 795	4 521	3 919	355
Additional expenses not included under Lux GAAP	21 645	23 171	12 080	-13 606
Total ENID	1 359	1 141	193	25
RI bad debt adjustment	4	4	1	-1
Discounting	674	363	284	27
Risk Margin	5 825	3 166	2 462	197
Other	0	0	0	0
SII Technical provisions	**297 054**	**161 473**	**125 583**	**9 998**

Table 22

Notes to Table 22:

- *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. The Impact of the DAC is negative because of reinsurance commissions that are larger than gross commissions.

- *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 + unincepted) on the Lux GAAP unearned premium reserve.
- *Future premium incepted* – Solvency II basis consider 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 Lux GAAP reserves are removed (e.g. the management margins in the booked reserves).
- *Future premium on unincepted business* – Solvency II basis allows for the future premium on the business that is unincepted but legally bound at the valuation date as well as the corresponding unincepted claims (captured in Net future claim cost (unearned + unincepted) .
- *Net future claim cost (unearned + unincepted)* - Solvency II basis captures the claims on unearned incepted business and unincepted but legally bound business at the valuation date.
- *Additional expenses not included under Lux GAAP* – 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)
- *Other* – this is a reconciling item between Lux GAAP and Solvency II technical provisions. The need for this is largely a result of the foreign exchange rate impact when calculating the technical provisions.

D.2.4. Recoverables from reinsurance contracts and SPVs (Special purpose vehicles)

Best estimate reinsurance recoverables and costs on a Solvency II basis are calculated as part of HSA's best estimate reserving process. Reinsurance recoverables and costs are based on known amounts, plus projections based on gross IBNR and future premium estimates.

HSA's reinsurance programmes are outlined below:

- HSA's most significant reinsurance protection is the 90% Whole Account Quota Share treaty, ceding business intra-group;
- For fire and other damage to property insurance, HSA maintains a risk XOL reinsurance programme to limit the impact of large individual losses to agreed risk tolerances;
- A catastrophe reinsurance programme which limits the impact of catastrophes, which result in multiple losses, to agreed risk tolerances;
- A motor reinsurance programme protects the motor portfolio;
- A liability excess of loss programme protects casualty exposures and pro rata protections are also purchased on select lines (e.g. cyber and employer's liability); and
- In addition, the Group purchases aggregate reinsurance cover for catastrophe and cyber exposures, which supplements HSA's own reinsurance programmes.

There are no Special Purpose Vehicles that protect the HSA portfolio.

D.2.5. Validation of Solvency II technical provisions

The Solvency II technical provisions reconcile back to the Lux GAAP balance sheet, with known adjustments made to the Lux GAAP position. Some of these adjustments tie back entirely to the Lux GAAP balance sheet (e.g. DAC removal), but others require further review. 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 opinion on the calculation of technical provisions;
- Head of Reserving review of outputs;
- Chief Actuary oversight and high-level review of outputs; and
- Reviews, including CAA review and comparison to the review of the approach on other entities within the Hiscox Group.

D.2.6. Transitional measures

HSA has not requested and therefore 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 and therefore no adjustments have been made to technical provisions relating to these transitional measures.

D.3. Other liabilities

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

Table 23 provides an analysis of HSA's total liabilities on a Solvency II basis compared to the amounts shown in the Lux GAAP financial statements as at 31 December 2019.

Balance Sheet (€000)	**Solvency II**	**LUX GAAP**	**Difference**
Liabilities			
Technical provisions - non-life (excluding health)	321 134	465 442	(144 308)
Best Estimate	315 309	0	315 309
Risk margin	5 825	0	5 825
Provisions other than technical provisions	11 183	11 183	0
Insurance & intermediaries payables	0	6 490	(6 490)
Reinsurance payables	0	502 255	(502 255)
Payables (trade, not insurance)	33 206	18 141	15 065
Any other liabilities, not elsewhere shown	0	146 559	(146 559)
Total liabilities	**365 523**	**1 150 070**	**(784 547)**

Table 23

Unless otherwise stated, the Solvency II basis valuation for all liabilities follows fair value measurement principles. There were no changes to the recognition and valuation bases of other liabilities over the period. 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 LUX GAAP and Solvency II is described in sub-section D.2.

Provisions other than technical provisions

The valuation of provisions other than technical provisions under Solvency II follows fair value measurement principles. Lux GAAP recognises holiday provisions as other creditors, on an IFRS basis it is recognised as other provisions.

Insurance and intermediaries payables

Payables related to insurance contracts are recognised when past due. Payables are considered past-due when the amount payable remains unpaid one business day after their due date. These may include amounts past due to agents, brokers and insurance contract holders. At the valuation date there are no amounts past due and all payables have been considered in the calculation of the technical provision in sub-section D.2.

There are no differences in the valuation bases between LUX GAAP 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 sub-section D.2.

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

Payables (trade, not insurance)

Payables (trade, not insurance) relate to payables to agencies, intercompany payables and insurance premium tax payable. The main difference results from the application of IFRS 16 for Solvency II purposes.

Under LUX GAAP, Payables (trade, not insurance) are carried at their carrying value 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 LUX GAAP valuation.

Any other liabilities, not elsewhere shown

Under LUX GAAP, "any other liabilities, not elsewhere shown" relate to DAC payable in relation to reinsurance ceded and deferred income. DAC is not recognised in the Solvency II balance sheet, therefore resulting in the difference between LUX GAAP and Solvency II. Deferred income has been considered in the calculation of the technical provision in sub-section D.2.

D.4. Alternative methods of valuation

HSA 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 HSA'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 HSA for managing its own funds

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

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

HSA calculates its regulatory capital assessment using the Solvency II standard formula, which is a high level assessment of required capital using market factors which for HSA's risk profile is appropriate. The Board has set an overarching Risk Appetite Statement that it wishes to maintain a regulatory solvency ratio above 120% of the standard formula SCR in normal trading conditions.

HSA regularly reviews the suitability of the standard formula and there are currently no plans to apply to use the HICM for regulatory capital requirements.

The target ratio for available capital in excess of the Solvency II SCR is agreed and signed off by the HSA 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 CAA as part of Solvency II quarterly reporting. In case of a shortfall in own funds compared to the SCR target ratio, HSA's management team will take action. This 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 HSA's risk profile and therefore its capital requirement.

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

There have been no changes in the policies and processes employed by HSA 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 24 provides an analysis of basic own funds by Tier compared to the prior year:

Basic own funds by tier (€000)	**Total Own Funds 2019**
Ordinary share capital (gross of own shares)	48 730
Share premium account related to ordinary share capital	57 986
Reconciliation reserve	(7 461)
Net deferred tax asset	1 648
Total excess of assets over liabilities (EAL)	**100 903**
Total basic own funds after deductions	**100 903**
Available and eligible own funds	**-**
Total available and eligible own funds to meet the SCR	100 903
Total available and eligible own funds to meet the MCR	99 254

Table 24

The majority of the own funds is 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. The net deferred tax asset forms part of Tier 3 assets under Solvency II.

Table 25 provides the calculation of the reconciliation reserve.

Reconciliation reserve (€000)	**2019**
Total Solvency II assets (sub-section D.1.1)	466 426
Total Solvency II liabilities (sub-section D.3.1)	365 523
Solvency II Excess of assets over liabilities	100 903
Ordinary share capital	48 730
Share premium	57 986
Deferred Tax asset	1 648
Reconciliation reserve	(7 461)

Table 25

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

Majority of HSA's Own Funds are unrestricted Tier 1 own funds items and do not have any eligibility restrictions. The net deferred tax asset of €1.6m is also eligible to cover the SCR, as shown in Table 26.

	2019 €000
Total eligible own funds to meet the SCR	100 903

Table 26

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

HSA holds a deferred tax asset of €1.6m which is not eligible to cover the MCR. All other assets are unrestricted Tier 1 own funds and are therefore eligible to cover the MCR, as shown in Table 27.

	2019 €000
Total eligible own funds to meet the MCR	99 254

Table 27

E.1.5. Explanation of any material differences between equity as shown in HSA's financial statements and the EAL as calculated for solvency purposes

Differences between HSA'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 28 and explained in sub-sections D.1 to D.3 this document.

	2019 €000
Shareholders' equity as shown in the financial statements	103 091
Solvency II valuation adjustments to assets	(786 735)
Solvency II valuation adjustments to technical provisions	144 308
Solvency II valuation adjustments to other liabilities	640 239
Solvency II EAL	100 903

Table 28

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

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

E.1.8. Own funds restrictions

HSA 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 HSA.

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

E.2.1. SCR and MCR at the end of the reporting period, accompanied, where applicable, by an indication that the final amount of the SCR is still subject to supervisory assessment

HSA's standard formula SCR and MCR for the year ended 31 December 2019 are shown in Table 29.

	2019 €000
SCR	66 599
MCR	29 970

Table 29

E.2.2. Standard formula SCR split by modules

Table 30 shows HSA's SCR for the year ended 31 December 2019, split by risk module.

Risk category	**SCR (€000)**
Non-Life Underwriting Risk	37 197
Counterparty Risk	9 474
Market Risk	18 908
Undiversified total SCR	**65 579**
Diversification benefit	-14 349
Basic SCR	**51 230**
Operational Risk	15 369
Adjustment (deferred tax)	**-**
SCR	**66 599**

Table 30

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

E.2.3. Standard formula simplifications

HSA did 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 HSA's SCR.

E.2.5. Capital add-ons

HSA has no capital add-ons imposed on the SCR by the CAA.

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

As a non-life insurer HSA determines the MCR in accordance with the EIOPA standard formula for calculation of the MCR. This involves calculating a factor charge by line of business on HSA's net written premium over 12 months preceding the valuation date and net technical provisions as at the valuation date. The factor charges are then summed to determine an initial SCR, which is then constrained to be within 25% to 45% of the SCR; and it cannot be less than an absolute minimum of €3.7m. [See QRT 28.01.01]

E.2.7. Material change to the SCR and to the MCR over the reporting period, and the reasons for any such change

HSA started to underwrite business as of 1 January 2019, and as such there are no comparison values for 2018.

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

HSA 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

HSA 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 HSA's capital management has been disclosed in sub-sections E.1 to E.5 above.

All amounts in the Solvency and Financial Condition Report, unless otherwise stated, are shown in Euro rounded to the nearest thousand. The rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Appendix A: QRTs

This Appendix contains the following templates which the company is required to disclose as part of the SFCR as set out in Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 (Procedures, Formats and Templates of the Solvency and Financial Condition Report in accordance with Directive 2009/138/EC).

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
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	1.648
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	19.111
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	334.619
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	312.005
R0140	*Government Bonds*	31.326
R0150	*Corporate Bonds*	280.680
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	22.214
R0190	*Derivatives*	72
R0200	*Deposits other than cash equivalents*	327
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	24.080
R0280	*Non-life and health similar to non-life*	24.080
R0290	*Non-life excluding health*	24.080
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	10.788
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	16.631
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	59.548
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	466.426

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	321.134
R0520	*Technical provisions - non-life (excluding health)*	321.134
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	315.309
R0550	*Risk margin*	5.825
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	11.183
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	33.206
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	365.523
R1000	**Excess of assets over liabilities**	100.903

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business				0	12.818		188.843	286.732	8.258								496.651
R0120	Gross - Proportional reinsurance accepted				0	0		0	0	0								0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share				29	9.673		139.123	234.018	7.378								390.221
R0200	Net				-29	3.145		49.720	52.714	880								106.429
	Premiums earned																	
R0210	Gross - Direct Business				-14	9.482		133.084	205.863	5.569								353.983
R0220	Gross - Proportional reinsurance accepted				0	0		0	0	0								0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share				13	6.296		86.387	149.124	4.048								245.869
R0300	Net				-28	3.186		46.697	56.739	1.520								108.114
	Claims incurred																	
R0310	Gross - Direct Business				-268	-1.031		-304.248	566.386	-10.399								250.441
R0320	Gross - Proportional reinsurance accepted				0	0		0	0	0								0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share				-220	-1.460		-319.157	570.980	-10.096								240.047
R0400	Net				-47	429		14.909	-4.593	-303								10.394
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net				0	0		0	0	0								0
R0550	**Expenses incurred**				47	2.867		42.144	57.031	-215								101.875
R1200	**Other expenses**																	
R1300	**Total expenses**																	101.875

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			DE	FR	IE	ES	NL	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	0	132.009	120.236	79.270	59.580	51.582	442.676
R0120	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0130	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0140	Reinsurers' share	0	104.618	93.003	64.667	46.979	40.434	349.700
R0200	Net	0	27.392	27.233	14.603	12.601	11.148	92.977
	Premiums earned							
R0210	Gross - Direct Business	0	102.577	87.785	51.765	38.345	40.633	321.105
R0220	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0230	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0240	Reinsurers' share	0	74.501	59.354	37.088	26.189	28.127	225.260
R0300	Net	0	28.076	28.431	14.677	12.156	12.506	95.845
	Claims incurred							
R0310	Gross - Direct Business	0	54.985	76.434	37.210	37.193	21.674	227.496
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0330	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0340	Reinsurers' share	0	51.034	69.839	37.121	37.687	19.697	215.377
R0400	Net	0	3.951	6.596	89	-494	1.977	12.119
	Changes in other technical provisions							
R0410	Gross - Direct Business	0	0	0	0	0	0	0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0430	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0440	Reinsurers' share	0	0	0	0	0	0	0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	2.436	24.510	23.107	15.669	13.410	10.041	89.174
R1200	**Other expenses**							
R1300	**Total expenses**							89.174

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**				0	0		0	0	0								0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross				0	155		16.928	-1.385	2.970								18.667
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				58	-3.027		-27.541	-38.266	1.807								-66.969
R0150	**Net Best Estimate of Premium Provisions**				-58	3.182		44.469	36.881	1.163								85.636
	Claims provisions																	
R0160	Gross				244	1.070		67.569	225.026	2.733								296.642
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				376	-3.237		-11.084	103.598	1.396								91.049
R0250	**Net Best Estimate of Claims Provisions**				-132	4.307		78.653	121.428	1.336								205.593
R0260	**Total best estimate - gross**				244	1.225		84.497	223.641	5.702								315.309
R0270	**Total best estimate - net**				-190	7.489		123.122	158.309	2.499								291.229
R0280	**Risk margin**				0	150		2.461	3.164	50								5.825
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole				0	0		0	0	0								0
R0300	Best estimate				0	0		0	0	0								0
R0310	Risk margin				0	0		0	0	0								0
R0320	**Technical provisions - total**				244	1.374		86.958	226.805	5.752								321.134
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				434	-6.265		-38.625	65.332	3.203								24.080
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				-190	7.639		125.583	161.473	2.549								297.054

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Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Underwriting Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											-12.920	-12.920	-12.920
R0160	2010	0	0	0	0	0	0	0	0	0	-3.500		-3.500	-3.500
R0170	2011	0	0	0	0	0	0	0	0	-5.423			-5.423	-5.423
R0180	2012	0	0	0	0	0	0	0	-7.231				-7.231	-7.231
R0190	2013	0	0	0	0	0	0	-12.079					-12.079	-12.079
R0200	2014	0	0	0	0	0	-15.439						-15.439	-15.439
R0210	2015	0	0	0	0	-17.282							-17.282	-17.282
R0220	2016	0	0	0	-27.420								-27.420	-27.420
R0230	2017	0	0	-55.766									-55.766	-55.766
R0240	2018	0	-33.932										-33.932	-33.932
R0250	2019	17.794											17.794	17.794
R0260												Total	-173.198	-173.198

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											12.829	12.873
R0160	2010	0	0	0	0	0	0	0	0	0	3.359		3.368
R0170	2011	0	0	0	0	0	0	0	0	6.057			6.073
R0180	2012	0	0	0	0	0	0	0	6.349				6.368
R0190	2013	0	0	0	0	0	0	10.868					10.906
R0200	2014	0	0	0	0	0	14.827						14.888
R0210	2015	0	0	0	0	18.264							18.342
R0220	2016	0	0	0	26.859								26.985
R0230	2017	0	0	45.812									46.040
R0240	2018	0	65.869										66.179
R0250	2019	84.237											84.620
R0260												Total	296.642

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Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	48.730	48.730		0	
R0030	Share premium account related to ordinary share capital	57.986	57.986		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-7.461	-7.461			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	1.648				1.648
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	100.903	99.254	0	0	1.648
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	100.903	99.254	0	0	1.648
R0510	Total available own funds to meet the MCR	99.254	99.254	0	0	
R0540	Total eligible own funds to meet the SCR	100.903	99.254	0	0	1.648
R0550	Total eligible own funds to meet the MCR	99.254	99.254	0	0	
R0580	**SCR**	66.599				
R0600	**MCR**	29.970				
R0620	**Ratio of Eligible own funds to SCR**	151,51%				
R0640	**Ratio of Eligible own funds to MCR**	331,18%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	100.903
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	108.364
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-7.461
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	31.638
R0790	**Total Expected profits included in future premiums (EPIFP)**	31.638

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	18.908		
R0020	Counterparty default risk	9.474		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	37.197		
R0060	Diversification	-14.349		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	51.230		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	15.369
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	66.599
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	66.599
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
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	0

		LAC DT
	Calculation of loss absorbing capacity of deferred taxes	C0130
R0640	LAC DT	0
R0650	LAC DT justified by reversion of deferred tax liabilities	0
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	0

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

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	C0010
R0010	MCR_{NL} Result	39.853

		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	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	7.489	3.145
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	123.122	49.720
R0090	General liability insurance and proportional reinsurance	158.309	52.714
R0100	Credit and suretyship insurance and proportional reinsurance	2.499	880
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	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	C0070
R0300	Linear MCR	39.853
R0310	SCR	66.599
R0320	MCR cap	29.970
R0330	MCR floor	16.650
R0340	Combined MCR	29.970
R0350	Absolute floor of the MCR	3.700
R0400	**Minimum Capital Requirement**	29.970