

Corporate governance

The Combined Code

Hiscox is committed to high standards of corporate governance, and for the year ended 31 December 2005 and the period up to the date of approving the accounts, the Group has applied the principles and complied with the provisions set out in section 1 of the revised Combined Code published in July 2003, with the following exceptions:

Stephen Hall, Senior Independent Director for the year until his retirement on 31 December 2005, had served for more than nine years but was nevertheless considered independent by the Board by virtue of his character and objectivity.

With the exception of the unavoidable absence of Carol Franklin Engler, all the Directors attended the Annual General Meeting.

The Board of Directors

The Board comprises four Executive Directors and five independent Non Executive Directors, including a Senior Independent Director. Brief biographical details for each member of the Board are provided on pages 4 and 5.

The roles and activities of the Chairman and Chief Executive are distinct and separate. The Chairman is responsible for running an effective Board and overall strategy, and the Chief Executive has executive responsibility for running the Group's business.

In accordance with the Company's Articles of Association, all Directors are required to submit themselves for re-election by the shareholders at least every three years.

Anthony Howland Jackson succeeded Stephen Hall as Senior Independent Director on 1 January 2006.

All Directors are entitled to seek independent professional advice at the Company's expense. A copy of the advice is provided to the Company Secretary who will circulate it to all Directors. No such advice was sought during the year.

The Board meets at least four times a year and operates within established terms of reference. It is supplied with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities. During 2005 the Board met six times.

The Board delegates operational management of the trading entities and divisions to their own Boards but reserves certain matters for itself, including: setting group strategy, approving significant mergers or acquisitions, approving the financial statements, declaration of the interim dividend and recommendation of the final dividend, approving group business plans and budgets, approving major new areas of business, approving capital raising, setting Group investment guidelines, approving the Directors' remuneration, approving significant expenditure or projects, and approving the issue of share options.

The Board's committees

The Board has appointed and authorised a number of committees to manage aspects of the Group's affairs. Each committee operates within established written terms of reference and each committee Chairman reports directly to the Board.

The Audit Committee

The Audit Committee comprised Stephen Hall as Chairman of the Committee together with Anthony Howland Jackson, Derek Netherton and Carol Franklin Engler until July 2005 at which time Adrian Auer joined the Committee. Adrian Auer succeeded Stephen Hall as Committee Chairman on 1 January 2006 and is considered by the Board to have recent and relevant financial experience.

The Audit Committee meets at least four times a year to assist the Board on matters of financial reporting, risk management and internal control.

The internal and external auditors have unrestricted access to the Audit Committee, which monitors the scope, results and cost effectiveness of the internal and external audit functions, the independence and objectivity of the external auditors, and the nature and extent of non-audit work undertaken by the external auditors together with the level of related fees. All non-audit work undertaken by the Group's external auditors with fees greater than £50,000 must be pre-approved by the Audit Committee. KPMG Audit Plc has confirmed to the Audit Committee that in its opinion it remains independent. The Committee is satisfied that this is the case.

The Nomination Committee

The Nomination Committee is chaired by Carol Franklin Engler and comprises the Group Chairman, Robert Hiscox, and all the non executive directors. It meets as and when required to deal with appointments to the Board and employs external search and recruitment agencies when considering new appointments. The Committee met twice during the year.

The Remuneration Committee

The Remuneration Committee comprised Anthony Howland Jackson as Committee Chairman, Stephen Hall, Derek Netherton and Carol Franklin Engler between 1 January and 30 June 2005. Adrian Auer and Sir Mervyn Pedely were appointed to the Committee on 1 July 2005. Stephen Hall retired on 31 December 2005.

The Remuneration Committee meets at least twice a year and recommends to the Board a framework of executive remuneration, and also determines on the Board's behalf the specific remuneration packages for each of the Executive Directors, including pension rights and any compensation payments. The Directors' Remuneration Report is presented on pages 41 to 43.

The Conflict Committee

The Conflict Committee is chaired by Anthony Howland Jackson and comprises all the independent non executive directors. It meets as and when required. Should a potential conflict of interest arise at any time between Group entities, there is a formal procedure to refer the matter to this Committee. The Committee met once during the year.

Conflicts arise from time to time because Syndicate 33 is managed by a Hiscox-owned Lloyd's Managing Agency. 27 per cent of the Names in the Syndicate are third parties; 73 per cent of the Syndicate is owned by a Hiscox Group company. The Conflict Committee serves to protect the interests of the third-party Syndicate Names.

The Risk Committee

The Risk Committee is chaired by the Chief Executive, and comprises the Group Finance Director, the Head of Compliance & Internal Audit, the Head of Risk, and senior managers from a selection of the Group's divisions. It meets monthly to monitor the risk management framework and makes reports to the Board and Audit Committee.

It also plays an important role in promoting and developing good risk management practice as well as identifying emerging risks and recommending appropriate risk management strategies.

The Committee receives information from internal audit as well as conducting its own reviews at strategic, tactical and operational levels.

The Executive Group and the Group Management Team

Two key management committees, the Executive Group and the Group Management Team, sit at the heart of the Group's organisational structure. These committees meet weekly and manage the Group's business operations in order to achieve the Board's strategic business objectives.

Performance evaluation

During the year, the performance of the Board, its main committees and the individual Directors was formally and rigorously evaluated.

A questionnaire was circulated to Directors concerning the performance of the Board as a whole and of its main committees. The responses were collated, and summarised. Open and frank Board discussions were held concerning the results, and all specific issues raised were addressed.

Having received input from each of the Executive Directors, the Non Executive Directors met under the chairmanship of the Senior Independent Director to discuss and evaluate the Chairman's performance.

The Non Executive Directors also met with the Chairman during the year to discuss a wide range of issues, including the performance of the executive members of the Board.

The Chief Executive held one-to-one meetings with each of the Executive Directors to discuss their performance over the year and to set targets for the year ahead. Similarly, the Chairman evaluated the performance of the Chief Executive and of the Non Executive Directors.

The evaluation process concluded that the Board as a whole and its main committees had functioned well during the year and that the individuals had also performed well, with each making a significant contribution to the Company. The mix of skills on the Board was felt to be appropriate and worked well. The issues identified during the evaluation, such as whether additional time needs to be devoted to the Group in 2006, have been thoroughly discussed and action plans have been put in place where appropriate.

Shareholder communications

The Executive Directors communicate and meet directly with shareholders and analysts throughout each year, and do not limit this to the period following the release of financial results or other significant announcements.

All Directors endeavour to attend the Annual General Meeting. With the exception of the unavoidable absence of Carol Franklin Engler from the Annual General Meeting, all the Directors attended both the general meetings held during the year.

In addition to the Executive Directors, the Senior Independent Director attends the six-monthly analysts' meeting. The Company also commissions independent research on feedback from shareholders and analysts on a regular basis following the Company's results announcements. This research together with the analysts' research notes are copied to the Non Executive Directors in full. The Chairman attends a number of meetings with shareholders as well as speaking at the analysts' presentations. In addition, any specific items covered in letters received from major shareholders are reported to the Board.

Major shareholders are invited to request meetings with the Senior Independent Director and/or the other Non Executive Directors, and they have been given the contact details of the Senior Independent Director.

An alert service is available on www.hiscox.com to notify any stakeholder of new stock exchange announcements.

Embedded risk management framework

The Directors are responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets, and for reviewing its effectiveness. This covers all aspects of risk including insurance risk, market risk, credit risk, operational risk, liquidity risk, social, environmental and ethical risk. This management system has been in place throughout the year and up to the date of approval of the Annual Report, and includes a variety of processes to identify, assess and manage the different classes of risk in the manner most appropriate to each class. The Board has reviewed the effectiveness of internal controls during 2005 and confirms there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, and that it accords with the guidance in the document, 'Internal Control: Guidance for Directors on the Combined Code'.

Hiscox acknowledges that it is neither possible, nor desirable, to eliminate risk completely. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The constant aim is to be fully aware of the risks to which the business is exposed and to manage these risks to acceptable levels.

Key senior management responsibilities are clearly identified together with their reporting lines to the relevant Executive Directors. Terms of reference and reporting lines are in place for all key decision making and monitoring committees including the committees mentioned above. In addition, there is a dedicated Risk Department which liaises regularly with Internal Audit, and the Head of Risk reports to the respective Boards and committees on a regular basis.

Board meetings and attendance

	Board		Audit		Remuneration		Nomination	
	Number of meetings	Number attended	Number of meetings	Number attended	Number of meetings	Number attended	Number of meetings	Number attended
RRS Hiscox	6	6	N/A	N/A	N/A	N/A	2	2
BE Masojada	6	6	N/A	N/A	N/A	N/A	N/A	N/A
SJ Bridges	6	6	N/A	N/A	N/A	N/A	N/A	N/A
RS Childs	6	6	N/A	N/A	N/A	N/A	N/A	N/A
SH Hall	6	6	5	5	2	1	2	1
AGC Howland Jackson	6	4	5	4	2	2	2	2
DND Netherton	6	5	5	4	2	1	2	2
C Franklin Engler	6	6	5	4	2	1	2	2
AR Auer	4	4	3	3	–	–	–	–
Sir Mervyn Pedelty	4	3	N/A	N/A	–	–	–	–

The execution of each delegated responsibility, by individuals and committees, is closely monitored by regular reporting to, and challenge by, the Board and its committees. This monitoring, supported by financial and non-financial management information, covers performance against agreed targets and objectives, as well as the risks to achieving these objectives and the effectiveness of the measures in place to manage these risks. Feedback and discussion within this reporting structure allow the Board to determine, communicate and enforce its appetite for the various risks to which the business is exposed.

Hiscox's culture of open communication and delegated responsibility allows this framework of embedded risk management to function well throughout the organisation, enabling rapid responses to the evolving risks to the business.

The internal audit function is responsible for providing independent assurance directly to the Audit Committee on the adequacy and effectiveness of the Board's system of risk management and internal control. This assurance is provided by means of an agreed programme of review, responsive work and direct reporting of significant issues. Internal Audit is also responsible for making recommendations at all levels where risk management may be usefully improved and for reporting the acceptance and implementation of significant recommendations to the Audit Committee. This function independently tracks and reports to the Audit Committee on the implementation of its own recommendations and those of the external auditors.

The Turnbull Guidance, 'Internal Control: Guidance for Directors on the Combined Code', was updated by the Financial Reporting Council in October 2005 and is effective for financial years beginning on or after 1 January 2006. The Board welcomes the revised guidance and confirms its intention to follow its recommendations throughout 2006.

Further information concerning Hiscox's approach to risk management is included on pages 32 to 35.