Hiscox 2026 Interim Results

Aki Hussain (CEO, Hiscox)

Good morning, everyone. It's great to be here to present another set of strong results. Hiscox is built to deliver through the cycle. Our diverse business portfolio and effective execution of our strategy are delivering growth at attractive returns in an increasingly complex trading environment.

We've grown premiums by 10%. Our insurance service result is up 30%, and we've delivered an attractive combined ratio of 90%. Our underlying investment income continues to benefit from strong yields and a growing asset base. And we've achieved a return on tangible equity of 20%, materially above our mid-teens through-the-cycle target. This drives strong capital generation and supports a 17% increase in the interim dividend.

And over the last 12 months, we have returned $460 million of capital to shareholders through dividends and buybacks while growing the book value by 9% -- now looking at the performance of our businesses in more detail, we have built a multiyear track record of delivering growth and strong profitability.

In Retail, we have now achieved three consecutive years of accelerating growth and margin expansion. Since 2023, our growth rate has doubled, driven mostly by policy count and reflecting the quality and breadth of our customer propositions. And today, we are upgrading our 2026 Retail growth guidance from 8% to 9% for the full year, a material step-up from the 6% we achieved in 2025. Retail margin continues to expand as we gradually and consistently improve within our 89% to 94% target range as guided at the CMD last year.

In the London Market, the diversification in our portfolio has again resulted in the business delivering a solid combined ratio after absorbing the impact from the Middle East conflict. This is consistent with our long track record of disciplined underwriting and profitable growth. In reinsurance, we have once again delivered an excellent combined ratio of 70%. This follows 3 years of achieving outstanding combined ratios in the 60s. Our disciplined underwriting and risk selection continue to be recognised by third-party capital providers, driving the top line in the first half.

Now turning to the profile of our growth. Our momentum is underpinned by dynamic capital allocation as we deploy or indeed pull back depending on the quality of the opportunities we see in front of us. Retail is leading our growth, adding $174 million of premium, almost as much as in the whole of 2025. We're capturing a structural growth opportunity by combining our competitive advantages in brand, marketing and technology with a market-leading underwriting and claims ecosystem and a business builder culture.

In the London Market, we continue to navigate macro cycles. And for the moment, growth in some existing lines and our selective expansion into adjacencies is offsetting targeted reductions in business that no longer meets our return thresholds. To bring this to life, we have launched structured solutions and downstream energy. Both are growing nicely. And at the same time, we shrunk major property premiums by 24%. And you'll hear more about this combination of expansion and cycle management from Jo in a moment.

In reinsurance, we grew our top line by matching strong third-party capital demand with high-quality opportunities our underwriters are able to access. At the same time, we continue to manage our net exposures in line with the guidance we set out last year.

Now looking at the initiatives driving this growth. Over the last few years, we have materially increased the pace at which new initiatives are launched. You can see here a selection from the last six months as well as some in our pipeline, which we continually top up. We're expanding surety across Europe and personal accident in France, leveraging significant experience we have in these lines across the group.

In addition, we are continuing to expand into more and more specialist niches such as podcasters, streamers, and even rage rooms. We're building and strengthening our partnerships to get more products to more customers. We now offer commercial auto in U.S. DPD - underwritten by a highly reputable multiline U.S. insurer and one of our largest existing partners.

Now looking ahead, we have added another top 15 U.S. carrier to our partnerships who, in the second half will begin selling our products through their extensive agent network. These opportunities have significant potential to drive premium growth and fee income as they scale over the next 18 months. In London Market, we are continuing to grow our established digital auto underwriting capability through FloodPlus, complementing it further with a new product we call SURF, targeted at larger and more complex U.S. flood risks.

And finally, we are expanding our geographic footprint. We've now received a branch license in Italy and appointed a Managing Director.

And we're continuing to innovate using disruptive technologies to drive growth and redefine the customer experience. As you know, a core underpin of our DPD business in retail has been the use of machine learning. This business is almost entirely auto underwritten, an essential feature to generate satisfactory returns on policies averaging less than $1,000 in premium.

We're now augmenting this with AI across distribution, underwriting and claims. Through technology innovation, we can sustain our growth momentum, opening new markets and creating new products while redefining the customer experience through a more frictionless service at every touchpoint. This is about using technology to drive growth, expand our reach, improve customer service and help our colleagues maximize their potential.

And we're already making tangible progress. Across our Retail business, we are now in the process of rolling out new front-end portals for our customers and brokers based on a common modular technology. These will open up new self-serve capabilities and expand our ability to deploy AI tooling. We have launched self-service options in our U.S. DPD contact centre. Customers calling our general enquiry line can now discuss their insurance needs and submit a claim with Sarah, our AI voice agent, whose voice you just heard a moment or two ago.

Feedback so far has been excellent. Around 30% of the calls taken by Sarah are completed with her, with a high customer satisfaction score of 88%. Sarah joins HARI, our agentic solution in London market, already deployed across middle market property. HARI receives submissions, reviews them, identifies missing information, assesses the risk against our underwriting appetite and provides recommendations to our underwriters.

And in a first for Lloyd's, London Market in collaboration with Google Cloud is developing an agent-to-agent protocol, which would allow HARI to interact directly with the broker as they develop their own agents. We plan to make the protocol open source to accelerate the market's adoption of Agentic trading.

But we're not stopping there. We are continuing to invest and build new capabilities and solutions with some exciting developments to come in Retail over the next 12 months, and I look forward to updating you next year.

And with that, I'll now hand over to Paul, who will take you through our financial performance in the first half.

Paul Cooper (CFO, Hiscox)

Thanks, Aki. Good morning. It's great to be here with you all today presenting another strong set of results. We have delivered a strong underwriting performance underpinned by profitable growth, underwriting discipline and the emerging benefits of our Change program.

ICWP increased by 10.1% to over $3.2 billion with profitable growth in all 3 business segments. Net ICWP grew by 6.8% to $2.3 billion, reflecting continued momentum in Retail alongside disciplined underwriting management in big ticket.

The insurance service result increased by 30.2% to $255.4 million, demonstrating the quality of the portfolio and the benefit of improving operating leverage. The undiscounted combined ratio improved to 90.4%, an improvement of 220 basis points year-on-year.

And this reflects the benefits of the group's diverse business model, a smaller impact from large losses and the emerging benefit of our change program. In relation to the Middle East conflict, the group has prudently reserved an estimated net loss of $60 million with $40 million in London market, reflecting our specialty exposures. This was offset by a benign natural catastrophe loss experience in the first half.

The investment result was $128.2 million, lower than the prior year, reflecting mark-to-market movements on fixed income assets. And these are expected to unwind over the next 18 months as bonds mature and pull to par. These are excluded from operating profit.

The adjusted operating profit before tax was $331 million, up 26.3% year-on-year, generating a 20.2% operating return on tangible equity. And this includes a 2.2 percentage point benefit from the recognition of $64.5 million of deferred tax assets.

We have taken management action, enabling us to access historical tax losses that were previously unrecognisable. This is expected to reduce future cash tax payments, but is not expected to have a material impact on future P&L tax charges. Turning to shareholder returns. We have increased the interim dividend by 16.7% to $0.168 per share, consistent with our policy to set the interim at 1/3 of the prior year total and follows a 20% step-up in the 2025 final DPS.

The $300 million share buyback is progressing well with 32% completed in the first half. And these results demonstrate continued delivery of our growth and change agenda and disciplined cycle management in big ticket, all delivering attractive shareholder returns.

Moving to Retail. Retail continues to deliver accelerating growth and expanding margin. ICWP grew by 12.6% to $1.6 billion or 8.2% in constant currency, ahead of guidance. Growth continues to be broad-based and volume-driven as the policy count increased at a faster rate than premiums with rate up modestly at 1%.

The insurance service result increased by 16.6% to $149.2 million, supported by profitable volume-driven growth and improving margins. The undiscounted combined ratio improved to 92.1%, benefiting from a lower loss ratio and the emerging benefits of the change programme. Based on the continued momentum we see, we have upgraded our 2026 Retail growth guidance to 9% for the full year in constant currency. Retail continues to execute well against its multi-year growth strategy and remains on track for double-digit growth in 2028.

Turning to London Market. We continue to operate with a disciplined approach to cycle management while investing in innovation and selective growth opportunities. The reported ICWP growth of 9.8% benefits from prior period premium adjustments mainly in property binders. The business was written in previous years, and we have adjusted where growth came in slightly higher than initially estimated.

So on an underlying basis, ICWP increased by 5.3%, reflecting expansion into adjacencies and new business opportunities. Net premiums grew by 3.2% with higher reinsurance sessions as we benefit from lower reinsurance pricing. The insurance service result was $44.1 million compared to $61.8 million in the prior year. This primarily reflects the impact of losses from the Middle East conflict and a softer rating environment in some lines. As such, the undiscounted combined ratio increased to 93.8%. London Market is well positioned with a diversified portfolio, continued innovation and strong underwriting discipline.

Turning to Hiscox Re. ICWP increased 6.4% to $944.5 million, driven by additional third-party capital deployment. Net premiums declined by 7.4% as we maintained discipline in property catastrophe and retro lines, reducing exposure in areas where returns fail to meet our profitability hurdles or target volatility profile. And this was partially offset by growth in specialty and pro rata lines. The insurance service result increased to $62.5 million, reflecting strong underwriting performance and a benign natural catastrophe environment compared with the prior year.

As such, Hiscox Re delivered an excellent undiscounted combined ratio of 70.4%. We continue to see strong demand from third-party capital with assets under management increasing to $2.9 billion, of which $1 billion is in our cat bond fund. Fee income from third-party capital was $53 million in the first half. Overall, Hiscox Re is delivering disciplined underwriting results and generating attractive fee income through our capital partners platform.

Turning now to our change programme. We are seeing ongoing tangible progress across the business. Our productivity is increasing. ICWP per FTE is up 10% in Retail. And in London market, the number of submissions processed is rising materially, up 50x across Sabotage and terrorism, cargo and middle market property as we deploy digitally augmented underwriting. And through the deployment of automation and AI, we are responding to our customers faster. 70% of total Retail premiums are now auto underwritten and the average submission to quote time in London Market has reduced by 15% in middle market property.

Savings from claims recoveries have almost doubled and are recognised in the P&L. We have also achieved a similar increase in claims fraud detection, which is prudently yet to be recognised in the P&L. As we execute our resourcing strategy, 9% of roles have been outsourced with a higher proportion in impacted functions. In areas like technology, we have in-sourced a further 96 roles since the full year, many in Lisbon with similar or better capability in a lower cost location.

Pleasingly, following a deliberate programme to upskill our staff, our teams are embracing the power of AI with a 69% adoption rate across the business. And we are continuing to optimise the number of applications, suppliers and property footprint.

In addition to unlocking growth and expansion, these changes are driving further efficiency and operating leverage across the group.

In the first half, we delivered $45 million of P&L benefit against the 2024 baseline and incurred $39 million of costs to achieve. Around one-fifth of the benefit is driven by improvements in claims recoveries, which are recognised in the claims line on the P&L. Improvements in our expense base are driven by savings with strategic suppliers and a greater use of outsourcing. With strong progress being made across a wide range of initiatives, we remain on track to deliver $75 million of benefit in 2026 and $200 million in 2028.

Our growth and change agenda is driving positive operating jaws. Premium growth is outpacing underlying expense growth. As a result of the change programme, underlying expenses have increased by only 0.4%. This reflects the P&L benefit more than offsetting underlying inflation, investment in the growth initiatives Aki spoke about earlier and an increase in brand spend, which will fuel Retail growth over the longer term. This is favorable when compared with ICWP growth of 8% in constant currency. In turn, this is driving an improvement in the group admin expense ratio, which has improved 80 basis points to 16.1%.

Turning to investments. The investment result reflects continued strong cash and coupon income, supported by a growing asset base. As noted earlier, the investment result reflects mark-to-market movements on fixed income, which are expected to unwind over time as bonds mature. Our assets remain conservatively positioned with a high-quality bond portfolio, average credit rating of A and a short duration of two years.

Turning to reserves. We continue to exercise a conservative reserving philosophy. This enables our long track record of favorable reserve development with $174 million of positive development in the first half. These releases are broad-based and from all segments. At the same time, our confidence level remains strong at the 86 percentile, above the target range of 75% to 85%. The risk adjustment of $355 million is an increase of $10 million since the full year.

The balance sheet remains robust. Organic capital generation of 14 points is driven by underwriting performance across all segments and returns from the growing investment portfolio. Our capital position remains very strong with an estimated BSCR ratio of 224%. On a pro forma basis, post announced returns, our BSCR stands at an estimated 210%. This strong capital strength supports continued profitable growth, investment in new capabilities and attractive shareholder returns.

With that, thank you for listening, and I will now hand over to Jo for an update on underwriting.

Joanne Musselle (Chief Underwriting Officer, Hiscox)

Thank you, Paul, and good morning, everybody. When people think about underwriting, they often think about pricing risk. But more than ever, the job of the CUO is about change - anticipating it, understanding and responding with speed and discipline. The world is changing at an accelerated pace, driven by geopolitical tension, technological advancement, economic uncertainty and climate change, and this creates both risks and opportunities.

And our job as underwriters is to help our customers navigate through that uncertainty whilst protecting the long-term performance of Hiscox, performance which is increasingly being driven by underwriting actions rather than market tailwinds. And I think our first half results are a good example.

So in the first half, there were several industry losses, most notably from the conflict in the Middle East. We have prudently reserved $60 million net across both London Market and reinsurance. Sadly, those tensions are ongoing. We continue to support our customers writing business reflective of the risk environment.

Outside of this, industry natural catastrophe for the first half was below our 10-year average and losses across the attritional was well within expectation for the group and consistent with last year. And all of this has combined to give a group undiscounted loss ratio of 43% as we benefit from our portfolio construction, exposure management and our diversification.

The strength of Hiscox lies not in any one individual class, but in the diversification of the portfolio, and you can see that on the left-hand side. Retail compounds, London Market balances growth with cycle management and reinsurance flexes between our and third-party capital. The Retail growth opportunity gives the option, but not the need, to grow our big-ticket businesses. And because these portfolios are highly traded, we're able to manage the various micro cycles that exist. And you can see that on the right-hand side. We lean in when conditions are favourable, but we step back when excess capital erodes returns.

So where are we in the market? So, this next slide, hopefully, a familiar slide to you. The chart on the left is our rates indexed back to 2018 for our 3 core segments. Retail, which is purple, demonstrates the stability of a highly diversified portfolio. We're now serving over 1.7 million customers and rating across the U.K., Europe and the U.S. is strong.

Our big-ticket businesses have moved from a rate acceleration part of the cycle into a now more moderate phase and rates have come down in 2026, although much of the gains have been retained since 2019 and attractive underwriting opportunities still exist, although it is becoming more differentiated, and you can see that on the right-hand chart.

So as a reminder, adequate means pricing capable of delivering attractive returns in a mean loss environment. Adequate plus is margin in addition and low is still profitable, but just below our targeted return hurdles. As you can see, despite the pressures, the position is broadly consistent with the position we gave you at the beginning of the year, and that's for a couple of reasons. One, the market has evolved in line with our expectations; and secondly, our cycle management actions, which you can see on the next couple of slides.

So, our London market strategy is made up of three components. First, manage the cycle. We actively reduce exposure where risk and reward is not commensurate. And you can see in the first half, we've non-renewed 17% and 23% of major property risks and renewables risks. Added to this, we've reduced line sizes in places like general liability and product recall.

The second component of our strategy is build out for adjacencies, adjacencies where we have existing expertise and capability. We're extending our property capabilities into U.S. mid-market. We're relying on our financial lines expertise for financial institutions and our terror expertise for aviation hull war.

And then the third part of our strategy is leaning into structural market changes. So facilities and MGAs are now an established part of the distribution landscape, and we have invested in structured solutions, global MGAs and beta -follow to build a strategic portfolio solutions capability to support select parts of this market profitably.

So, the headline underlying growth for London Market is plus 5%, but that's actually made up of minus 8% from cycle management, offset by plus 13% from existing and adjacent lines where we see attractive opportunities, and this has moderated further on a net.

Our reinsurance strategy is similar with 3 components: first, manage the cycle. We selectively deploy our capital in line with our high return hurdles and our volatility profile. And you can see we've reduced exposure in the first half, reducing the property cat and retro by 11% and 35%. Secondly, we're scaling into our non-catastrophe lines, things like pro rata and specialty, where we benefit from client relationships and our expertise and further diversifies our portfolio.

And lastly, scaling Hiscox Capital Partners. So third-party capital gives us both relevance in the market, but it also enables us to deploy more of our underwriting capability than our own balance sheet will allow, and this builds attractive portfolios for our partners and fee income for ourselves. So having significantly increased our net retained in a hard market, we're now just moderating that position as conditions evolve.

And then moving on to Retail, where our active portfolio management is underpinned by a specialist underwriting ecosystem across the whole value chain. And our focus now is on next generation of underwriting capability through data, technology and further automation. So, we're rolling out a new pricing engine across U.K., Europe and the U.S., and this has given us greater segmentation capability, but it's also allowing us to respond to trends with greater precision and speed.

We're enriching our data. We're adding third-party data to our own proprietary data, again, multiple benefits, from risk segmentation and selection, but also it makes us easier to do business with. As an example, our new Cyber Accelerate product has reduced the number of questions we need to ask our customers by over 60%.

And then further automation is driving productivity, freeing up our underwriters to focus where their judgment matters. We have a new AI augmented solution that we've rolled out in a part of our U.S. broker business. And this is increasing or decreasing the time it takes to process a quote from submission to quote by 80%, and we're now going to roll that out for the rest of Retail. So taken together, these all support profitable growth at scale.

So, as I look forward, my focus is clear: manage the cycle, continue to reshape our portfolios in line with the evolving market conditions. Secondly, accelerate innovation, continue to invest in sectors, in products and distribution that will all define our future growth. And then lastly, elevate our underwriting. We're going to equip our underwriters with data and tools to really amplify their specialty expertise. So, I have no doubt the market will evolve and risks will change, but I'm really confident in our ability to adapt. In a world defined by uncertainty, a strong underwriting capability is a competitive advantage.

Thank you. I'll now hand back to Aki.

Aki Hussain (CEO, Hiscox)

Thank you very much, Jo.

I'd like to leave you with a few key messages. So, Hiscox is built to deliver growth and returns through the cycle, led by broad-based acceleration in Retail and complemented by disciplined expansion and cycle management in big-ticket.

Through our change programme, we're building a stronger and more efficient Hiscox, launching new capabilities and increasing our operating leverage. We are achieving consistent and attractive returns in evolving market conditions, underpinned by dynamic and proactive capital allocation and an expert underwriting ecosystem. Our strong and sustained capital generation allows us to reinvest in growth in an unconstrained, yet disciplined, way while delivering attractive distributions to shareholders.

So, turning to our outlook. Well, our outlook is positive. Retail growth continues to accelerate. So today, we're upgrading our 2026 full year guidance to 9%, and we remain on track for double-digit growth in 2028. With a return on tangible equity of 20%, we're ahead of our mid-teens through-the-cycle target.

Our change programme has realized a $45 million P&L benefit in the first half, and we're on track to deliver a $75 million benefit for the full year and $200 million in 2028. Our shareholders are benefiting from our delivery through a 17% increase in the interim dividend and our ongoing $300 million share buyback, which continues at pace.

As ever, thank you very much for listening, and we'll now take questions.

Ben?

Ben Cohen (Co-Head of European Insurance Research, Equities, RBC Capital Markets)

Hi, Ben Cohen from RBC. Two questions really on Retail. Firstly, could you just talk a bit more about what has driven the confidence in terms of the 9% growth now for the full year? And secondly, in that context, is it -- are you now maybe a bit too conservative in terms of only hitting a double-digit growth rate in 2028? What do you see as the drivers into 2027 to enable us to assess the likely growth rate then?

Aki Hussain (CEO, Hiscox)

Great. Thanks for that question. The Retail growth journey, as you know, has been a multi-year growth journey. We've been -- we've seen accelerated and delivered accelerated growth over the last three years. And each year, it's been accelerating, and we've been expanding margins. The really pleasing thing is it's not one factor. It is a multitude of factors. So, we tend to call it a broad-based growth. So, we're seeing growth acceleration in every business unit and practically every single channel.

And we laid out last year at the CMD, we set out the market opportunity. That market opportunity is vast. It is structural, and it's continuing to grow. So, the background is constructive. And what we've seen over the last, certainly the last, six months is whilst the market has been growing, certainly in the U.S., France and Germany, we're seeing new business applications increase further. So that background is very constructive for us.

Secondly, as we laid out, we are launching new products. You heard about streamers, podcasters. There's a range of other variations of new niches that we're going into, new products that we're launching. You heard about the cyber product from Jo just a few moments ago. We're investing in distribution, adding more partners, winning new distribution deals. And I guess when you kind of pare it back, what we are seeing is a significant uplift in each of our channels.

So, if I think about our direct commercial business, which has been supported by extensive marketing over the last few years in building our brand and so on, that is now growing at 14% --that's been accelerating. That's our direct commercial business across the Retail business units. A couple of them, particularly in the U.S., that's growing even faster. So that's going really well for us. Our distribution deals that we signed over the last 3 years, you've heard me say previously that they take about 18 months to really get to scale. Well, those are beginning to really kick in.

We've spoken about the high net worth business in the U.K. where we've been deploying technology, market-leading customer service, where the NPS scores are in excess of 80 and the wide coverage that we provide. We're a genuine market leader there, and we've seen double-digit growth there in practically every single quarter, I think, for the last six to eight quarters. So, there's a multitude of factors that are driving that.

And we guided to 8% this year. by the end of this year. Frankly, we achieved that ahead of our expectations in the first quarter. And another three months on, the visibility that we have to the end of the year gives us the confidence that the momentum will continue to build from here and enables us to increase the guidance to 9%. And that gives us even more confidence that we will hit the double-digit growth rate in 2028. As far as 2027 goes, I think we'll update you at the full year.

Ivan?

Ivan Bokhmat (European Financials Analyst, Barclays)

Hi, thank you very much, it's Ivan Bokhmat from Barclays. The first question would be another one on Retail, please. Just wondering, looking at your presence, we're seeing a little bit of a deceleration of rates. And of course, the market is becoming more competitive. I was just wondering how you think about Retail becoming a headwind in the next few years? How much of a headwind could that become?

My second question is on London Market. I think it was very interesting to see you expanding your kind of MGA solutions. And at the same time, getting some tailwind from the binders this year. Can you talk about how much of your underwriting right now is delegated authority? And how do you think about risks of that in a softening market?

And maybe the final question, just related to reserve releases. I mean, how strong would that be? Should we expect that to be?

And I think, Paul, you've mentioned some of the claims efficiency gains. Is that something that's specific to first half? Or what kind of a run rate for those extra initiatives within reserving or elsewhere should we expect?

Aki Hussain (CEO, Hiscox)

Great. Thank you, Ivan. So, Paul will cover the reserve releases question. In terms of how much of our portfolio in London Market is delegated and how we think about it, Jo will provide some insight on that.

In terms of Retail headwind -- absolutely not. Just let me remind you about the Retail sort of portfolio. We -- yes, the rate tailwind is decelerating. The Retail portfolio is much less cyclical than London Market and reinsurance. And if I kind of -- if you have your mind back to pre-COVID, this is a portfolio where typically year-over-year, it was plus or minus 1% or 2%. That is our normal expectation with the Retail portfolio. What we had was a post-COVID inflation spike. And as a result, we did see rates go up I think in one year, they might have gone up 5% or 6%. But this is now reverting back to a more normal environment for the Retail business. The Retail business is about operating leverage and providing best-in-class service and getting growth through volume. And that is exactly what we're doing. In fact, if you were to draw the two curves, the rate has been decelerating for the last three years as we have come out of that COVID -- the inflation spike. And that has coincided exactly with the Retail growth accelerating. So actually, the volume growth that we've been delivering in Retail has been ahead of that rate deceleration every single year, and we're very confident of achieving that, which is kind of further reflected in the higher guidance that we provided for 2026.

Jo, do you want to comment on the delegated authority and then Paul?

Joanne Musselle (Chief Underwriting Officer, Hiscox)

Sure. Yes. So, as you say, I mean, delegated underwriting is not new to us. We've done this for many, many, many years across all of our business. I suppose the longest example would be in our London Market business where we have a binder portfolio, and I think that's a five-decade track record.

I think the key to delegating underwriting authority is you're certainly not delegating underwriting performance or accountability. You're just managing it in a very different way. You're managing it more on a portfolio basis rather than on an individual risk type basis. I mentioned in the presentation that we are leaning into some of the sort of structural changes in the market and particularly around things like global MGAs and beta-follow. But we're doing that in a Hiscox way. We're doing that with underwriting discipline. And we're doing that with technology.

Technology played a key feature here. Data really shortens the distance between portfolio management and action. So, we're partnering with people who absolutely share our underwriting ethos, who have an alignment of interest in terms of underwriting ethos. We're definitely partnering people who have data and technology at their core, who are really leaning in, investing in the same way that we are.

And then lastly, that longevity of relationship. Lots of things that we do, we do for the long term. We want to partner with people who have a longevity of relationship. So yes, we're doing a little bit more of it. I think you can see from that pie chart that I showed, it's still a modest part of what we do. But yes, a growing part because that is a growing part of the market, but we're definitely doing it in Hiscox way.

Ivan Bokhmat (European Financials Analyst, Barclays)

Can I follow up on within the like managed premium London Market, how much is the general...

Joanne Musselle (Chief Underwriting Officer, Hiscox)

I think -- I mean, I'm not going to give you a number, but I think what I would say is there's lots of parts of our business that we do delegate. So, what was historically called alternative risk, I think that is an area now that's led into the portfolio solutions. So, you can see that there's delegation there. In our binders business, so that predominantly is in the property segment of the London Market business. So that would be commercial binders, high net worth binders predominantly in the U.S. So there is a proportion that is delegated. But as I said, I mean, we've got a five decade, I think, track record for managing that business.

Aki Hussain (CEO, Hiscox)

I just to add to that, the previous statistic that we have provided is on the proportion of business we lead in Lloyd's, and we continue to lead the majority of the business that we write.

Paul Cooper (CFO, Hiscox)

Yes. And then on reserving and reserve releases, I mean, just talking of track record. So our track records on reserve release is something like a 20-year unbroken positive PYD for the group. So that's a great starting point. And really, the way to think about it is we have a very conservative reserving approach on the way in, and you need that to experience the reserve releases on the way out as these claims mature and come to maturity.

So from that perspective, what you've seen, and you can see on the slide is the confidence level is up at 86% -- so it's modestly above the 75% to 85% range. And despite the reserve releases, we have added to the margin in the first six months. So we've built that up by a further $10 million. So that gives us the confidence of ongoing reserve releases on a prospective basis.

In terms of the change programme, you're right to highlight it. What we have been doing is industrialising really the processes around both claims recoveries, but also claims fraud detection. And I'm pleased to say you've seen the level of detection rates or recoveries has gone up quite meaningfully since 2024. That's manifested itself in the half year with a $10 million benefit from a claims recovery perspective, that's in the P&L. From a fraud detection perspective, we've been a bit more prudent on that basis and haven't changed our loss picks. So that will come through over time.

Aki Hussain (CEO, Hiscox)

Shanti and then Michael.

Shanti K. (Equity Research, Bank of America.)

Yes, just two questions. It's Shanti from Bank of America. So the first one is just on the Middle East reserves that you've taken action on today. That $60 million, how are you thinking about that? Is that a one and done sort of view? Or are you trying to build a stronger reserve position on uncertainty for that?

And then the second question is just on the underlying attritional loss trends, mainly at London Market and Re. So before I came here, I tried to work out for the group, the underlying attrition, which seems sort of flat year-on-year on a group basis. But I'm just curious to know within the segments of Re and London market, what the trends are looking like there? Are you seeing any deterioration in attritional for those two? Thank you.

Aki Hussain (CEO, Hiscox)

Okay. Thank you. So in terms of the attritional, Jo, do you want to comment on that? In terms of Middle East, this is -- it's a prudent reserve. As you -- I mean, you just heard from Paul in terms of our reserving philosophy that continues to persist in every aspect of our business. So, we set aside $60 million, which is our loss estimate. That is currently about 25% incurred or was at the end of June.

So 75% remains an IBNR. And this is - we're reserving to the ultimate on the basis of actually known events and market estimates. So, you'll have heard the sort of the same narrative as we have, the market estimates for losses are in the region of $3 billion to $4 billion. So, we kind of apply that analysis and on proprietary data they don't come up with a number. Of course, it is a live event, so things could change. But this is -- I regard this as a prudent estimate of what the position is today.

Joanne Musselle (Chief Underwriting Officer, Hiscox)

Yes. And then just picking up the question on attritional loss ratio. So I think I said, it is well within the expectation of what we expected for the first half. And you're right, the math that you've done is pretty flat year-on-year. So for me, we obviously talked about events that happen. We also -- we talk about individual, but the attritional loss ratio is -- I watch that like a hawk because that's the real health of the business. And yes, really pleased with the attritional loss ratios across both our big-ticket business and, of course, our Retail business.

Aki Hussain (CEO, Hiscox)

I think Michael had a question.

Michael Christodoulou (Equity Research Analyst, Berenberg)

Thank you. Michael Christodoulou from Berenberg. So, two questions. One on the reinsurance. In the press release, you stated that you've seen some loosening in terms and conditions. I'm not sure if that's industry or Hiscox-specific, if you could give us some colour on, that would be helpful.

And then the second one, more broadly, I guess, you opened with AI. If you could give us some sense of the cost growth you're assuming in terms of your AI spend during the duration of the plan or at least for this year, that would be also helpful.

Aki Hussain (CEO, Hiscox)

Okay. Great. So, in terms of loosening of the Ts and Cs, Jo will comment on that. They're not Hiscox-specific. In terms of AI growth of spend, I'll give Paul the opportunity if you wanted to comment on that.

Look, AI for us is a -- we see that as a tailwind for the business. And you've heard me kind of speak about it and Jo and others speak about how we are thinking about AI. We think it's going to create new opportunities, is indeed creating new opportunities even today to enable us to service our customers better, faster in a more productive way and will drive operating leverage.

But the really interesting thing for us is it will and is already beginning to unlock growth opportunities. You heard Sarah earlier on today. I mean, the long and short of what that enables us to do, it enables our licensed insurance agents in the U.S. to spend much more time closing the deal, right? So if you can -- if a customer can satisfy all their needs through speaking to an AI agent, then we are spending less time closing the deal.

And that is also one of the factors that is helping us drive up the growth in our -- across our digital platforms, and you'll see much more of that over the next few months and certainly over the next 12 months as we launch a number of new capabilities and products into the market, which we're particularly excited about. Paul, do you want to comment on the costs?

Paul Cooper (CFO, Hiscox)

Yes. I mean I think there are several perspectives on the cost. So, we have been spending in the first half. It's all in the P&L.

And then if you look forward, it's all in the guidance that's contained that we put out there from a cost to achieve perspective. I think the important aspect though is, one, being super clear on how those costs are governed.

And it's not just around the AI token or tokenization aspect, but it's also cost of the cloud, it's also the cost of licensing. I think the other aspect is part of that governance is just like any other large project, you've got to really be super clear on the business case, the ROI that comes through it. So, we are pretty meticulous about those.

Joanne Musselle (Chief Underwriting Officer, Hiscox)

Yes. And then in terms of the terms and conditions, I think what we said is the terms and conditions have broadly held. And what we meant there was our ability to carve out differentiated terms is just now lessened and there's much more standardisation of terms. So, what that would mean is maybe we had a shorter hours clause, which is now more standard or a radius as an example.

I think the most important thing though is retention which if you remember back to 2023, there was a seismic shift in the retention of where reinsurance business attached and that has held. And that was the most -- we talk about rate a lot, and we talked about rate increasing, but that was probably the most important term and condition or term feature of the 2023 hardening, and that has held.

Aki Hussain (CEO, Hiscox)

I can't see it back there. So, there's Chris and -- is that Vash? Yes, it's Vash.

Vash Gosalia (Executive Director and equity research analyst, Goldman Sachs)

Thank you. Hi, this is Vash from Goldman Sachs. I have two, potentially three questions.

One, I appreciate that a large part of your book is rate adequate, but are you able to give us a sense of how much does rate need to fall from here to actually make the business inadequate and enough for you to like walk away?

And somewhat related to that, are you able to then give us a sense of how much capital is actually tied to each segment of the business? I appreciate you can't give us exact numbers, but some colour would be helpful.

And third one, potentially a very quick one. What is the differential in the fees between ILS and cat bonds?

Aki Hussain (CEO, Hiscox)

Okay. So let me try and just untangle those. So, in terms of rate adequacy, how much can the rates drop before it falls into the low adequacy segment. As you appreciate, I think we're not -- it's not going to be a precise answer, but I'll give that Jo will provide a perspective on that. All I'll say is it's not just rate. There's many other things that we can do.

In terms of capital tied, I think that's a really sort of detailed question. I think Paul has said previously, look, the most capital-intensive business is reinsurance, followed by London Market and then Retail. In terms of fees, Paul, do you want to comment on the relative richness of the fees, ILS versus cat bonds.

Paul Cooper (CFO, Hiscox)

Yes. I mean, so I think the first thing is, fees are capital-light, capital free. So, they are accretive to ROE from both perspectives. The -- really, the cat bond fund is more of an administrative nature. So, the fee income is a lot lower, still accretive, still good margin, whereas for ILS and indeed, let's say, the traditional third-party capital fronting, you get a fee based on volume and then a profit commission element.

Joanne Musselle (Chief Underwriting Officer, Hiscox)

Yes. And then if you pull up the rate adequacy slide, it's not a bad one to want to talk through. So yes, what we've given you here, and we've done this now for a number of periods is give you the adequacy of the portfolio. How this works is adequate is attractive returns in a mean loss environment. We, of course, price for losses and we price for mean losses. And so you can see that a lot of our business is falling into that adequate and then adequate plus just means there's margin in addition. So you're absolutely right. There's margin in there that could erode.

I think what's interesting is how this has changed. So going back 18 months ago, just take London Market as an example, the low was like 5%, and it's now 25%. So the market is evolving. It is changing. But we're acting accordingly. Within there, I talked about in the presentation, we've non-renewed a significant amount of our major property as an example, risks that we didn't believe were rate adequate. And therefore, we've decided to non-renew.

There are other areas in there. I called out product recall. Product recall has been in that sort of low adequacy, and we're really trimming line sizes. So we're reducing our exposure. So the market, of course, will evolve within that market, it's largely still an attractive market. The vast majority is still in that adequate and adequate plus. But where it does change, where it does evolve, we're definitely going to act accordingly. And you've seen that in our results today with some of the lines that we're actually taking aggregate off the table because we don't believe we're getting paid for that risk.

Michael Christodoulou (Equity Research Analyst, Berenberg)

Chris?

Ben Cohen (Co-Head of European Insurance Research, Equities, RBC Capital Markets)

Just one question and a couple of follow-ups. So first of all, just on the change programme. There is, I guess, a modest net benefit versus where you originally sort of planned for 2026. So I'm wondering if that's timing or some degree of seasonality? Or I guess the broader question behind that is how confident are you today versus when you first announced the change programme in terms of delivery? I mean, can we potentially get excited that 2028 could be more than 200. So that's the first question.

Second question is really on sort of the gross to net sort of retention strategy, particularly in London Market. I mean we're obviously heading back lower, I think back in sort of 2018, 2019, you were in the 50s, I believe. I'm wondering if that is something that potentially could be -- we could see a return to that sort of retention within the London Market book.

And finally, just a very quick sort of follow-up actually on the previous question on the fee business. I wonder if you could give a little bit more colour on the split between sort of performance fee and management fee. If you can sort of help us see of that GBP 53 million, what is sustainable within that number?

Aki Hussain (CEO, Hiscox)

Okay. So in terms of fees, Paul, do you want to comment on that in terms of the overall change programme and the delivery to date, and what that means for the $200 million. Again, Paul, I'm sure we'll comment on the pattern of delivery.

But look, as far as the overall target is concerned, we're very confident in achieving the $200 million of savings by the end of 2028. And our confidence has only increased as the days and months have progressed as actual delivery has begun. As you can imagine, when you set out on this journey, you do a lot of work to try and understand the initiatives that will get us there. There's a lot of contingency you build in, if one has to. And we're confident of achieving that outcome. But Paul will comment on the pattern and the $45 million that we delivered in the first half.

In terms of the gross to net for London Market, we -- as you've heard Jo say many times, we underwrite and operate according to the market that's in front of us. You'll have seen the gross to net change actually so far in the first 6 months of 2026, where, frankly, we have bought more reinsurance because frankly, the pricing is more competitive.

And we will adjust the portfolio depending on the market conditions. Will it go back down to -- I'm not sure we went all the way down to 50%. I think it went down to -- it might be in the high 50s, but low 60s. I'm not sure -- I don't -- well, it depends on the market conditions. We'll play that depending on how those conditions evolve.

Paul Cooper (CFO, Hiscox)

Yes. And so on the change programme, we got confidence in the $200 million in 2028 and similarly $75 million for the full year this year. So the $45 million is good progress against both the annual target and towards 2028. So those benefits are building nicely. And I think the way to think about it is you're going to have some that have a degree of benefits that are a bit more lumpy in nature.

So I can give you two examples. One is claims recoveries. So we have industrialised or in the process of really industrialising that process. But the recoveries by their nature will come in and will vary by quarter-to-quarter. The other aspect is, let's say, procurement where we can renegotiate contracts. Some of them may be demand-led -- and you get a discount, but obviously, the volume will dictate the absolute amount of that saving in any period, depending on the services that are consumed. Nonetheless, I said it's building nicely in terms of those benefits.

And you can see that really come through in terms of the outsourcing. So 9% of roles for the group is, in my view, pretty considerable from a standing start. If you look at the level of third-party fees and services that we're reducing because of in-sourcing, 97 roles again in six months is pretty handy. So ongoing good progress and centres of excellence, we are driving out further. So, I think you can see the trajectory from the change programme.

And then in terms of fee income, it's disclosed on slide 24, the various fixed and variable on the bottom right you can see there's a decent amount coming through from the PC and the fixed element is decent. What we have been doing is driving and trying to structure the sort of third-party capital to have a greater component of fee income to really limit the volatility of that number.

Aki Hussain (CEO, Hiscox)

Okay. I think we are -- I think we're done. So, guys, thank you very much.

Thank you very much for some great questions, and we'll see you again in a few months' time. Thank you.