

HCC INSURANCE HOLDINGS INC/DE/

Form DEF 14A

April 13, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

HCC Insurance Holdings, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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**HCC INSURANCE HOLDINGS, INC.
13403 Northwest Freeway
Houston, Texas 77040-6094**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 21, 2009, at 9:00 a.m. Houston time**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of HCC Insurance Holdings, Inc. will be held on Thursday, May 21, 2009, at 9:00 a.m. Houston time, at the Omni Hotel, Four Riverway, Houston, TX 77056 for the following purposes:

1. To elect ten directors for a one-year term, each to serve until the Annual Meeting of Shareholders in 2010 and until his successor is duly elected and qualified.
2. To ratify the appointment of PricewaterhouseCoopers LLP as auditors for 2009.
3. To transact such other business as may properly come before the meeting and any postponement or adjournment thereof.

Our Board of Directors has fixed the close of business on April 2, 2009 as the record date for determining those shareholders who are entitled to notice of, and to vote at, the Annual Meeting of Shareholders. A list of such shareholders will be open to examination by any shareholder at the annual meeting and for a period of ten days prior to the date of the annual meeting during ordinary business hours at 13403 Northwest Freeway, Houston, Texas. A copy of the Annual Report of HCC Insurance Holdings, Inc. for the year ended December 31, 2008 is enclosed.

By Order of the Board of Directors,

James L. Simmons,
Vice President and Secretary

Houston, Texas
April 13, 2009

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING, PLEASE MARK, SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT IN THE ENCLOSED PREPAID ENVELOPE OR, IF YOU PREFER, SUBMIT YOUR PROXY BY TELEPHONE OR USING THE INTERNET, TO ASSURE THAT YOUR SHARES ARE REPRESENTED AT THE MEETING. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON IF YOU WISH TO DO SO, EVEN IF YOU HAVE PREVIOUSLY SUBMITTED YOUR PROXY.

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**HCC INSURANCE HOLDINGS, INC.
13403 Northwest Freeway
Houston, Texas 77040-6094**

PROXY STATEMENT

**ANNUAL MEETING OF SHAREHOLDERS
May 21, 2009**

INFORMATION CONCERNING SOLICITATION AND VOTING

This Proxy Statement is first being mailed on or about April 13, 2009 to shareholders of HCC Insurance Holdings, Inc., which is sometimes referred to in this Proxy Statement as HCC, or as we, us, or our, in connection with the solicitation by our Board of Directors of proxies to be voted at the Annual Meeting of Shareholders to be held on Thursday, May 21, 2009, at 9:00 a.m. Houston time, at the Omni Hotel, Four Riverway, Houston, TX 77056, and any postponement or adjournment thereof. A shareholder giving a proxy has the power to revoke the proxy at any time until 11:59PM Eastern time May 20, 2009. Such right of revocation is not limited by or subject to compliance with any formal procedure.

This solicitation is made by HCC, and the cost of soliciting proxies will be borne by HCC. Copies of solicitation material may be furnished to brokers, custodians, nominees and other fiduciaries for forwarding to beneficial owners of shares of our common stock, and normal handling charges may be paid for such forwarding service. Solicitation of proxies may be made by mail, personal interview, telephone and facsimile by our officers and other management employees, who will receive no additional compensation for their services. We have retained Georgeson Shareholder Communications, Inc., 199 Water Street, 26th Floor, New York, NY 10038, at an anticipated cost of \$7,000 plus reimbursement of out-of-pocket expenses, to provide services in connection with our annual meeting, including the solicitation of proxies.

Only shareholders of record on our record date of April 2, 2009 will be entitled to vote at the annual meeting, and each share will have one vote. At the close of business on such record date, there were 112,070,307 shares of our common stock outstanding and entitled to vote at the annual meeting.

Quorum and voting requirements are set forth in the Delaware General Corporation Law and our governing documents. A majority of the outstanding shares of our common stock, represented in person or by proxy, will constitute a quorum at our annual meeting. Abstentions, withhold votes and broker non-votes (described below) are each included in the determination of the number of shares present for purposes of determining the presence of a quorum. The election of directors will be determined by a plurality of the votes cast, which means that the 10 nominees who receive the highest votes will be elected. Withhold votes will not impact the outcome of the election of directors. The affirmative vote of the holders of a majority of the shares of our common stock present in person or represented by proxy at the annual meeting and entitled to vote on the matter is required for the ratification of our independent registered public accounting firm. Abstentions have the effect of an against vote. If you hold your shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion on some of the items to be acted upon. Thus, if you do not give your broker or nominee specific

instructions, your shares may not be voted on those items (broker non-votes) and will not be counted in determining the number of shares necessary for approval for each item. Our Board of Directors does not anticipate calling for a vote on any matter other than those described herein.

If you return your signed proxy card but do not mark the boxes indicating how you wish to vote, your shares will be voted FOR the election of the 10 director nominees named herein and FOR ratification of the appointment of PricewaterhouseCoopers LLP.

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The following table sets forth certain information regarding the beneficial ownership of our common stock as of the record date by (a) each of our current and former executive officers named in the Summary Compensation Table whom we refer to as Named Executive Officers, (b) each of our directors and (c) all of our directors and Named Executive Officers as a group. Based on a review of Schedules 13D and 13G filed with the SEC, there are no greater than 5% holders.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership(2)	Percent of Common Stock Outstanding
Frank J. Bramanti	559,084(3)	*
Patrick B. Collins	59,580(4)	*
J. Robert Dickerson	95,330(5)	*
Walter M. Duer	67,086(6)	*
Edward H. Ellis, Jr.	213,708(7)	*
James C. Flagg, Ph.D.	37,080(8)	*
Allan W. Fulkerson	78,655(9)	*
Thomas M. Hamilton	4,000(10)	*
Craig J. Kelbel	188,500(11)	*
John N. Molbeck, Jr.	401,279(12)	*
Cory L. Moulton	95,957(13)	*
James E. Oesterreicher	6,674	*
Michael A. F. Roberts	49,080(14)	*
Robert A. Rosholt	2,427	*
Christopher J. B. Williams	5,830	*
Scott W. Wise	3,330	*
All Directors and Named Executive Officers as a group (16 persons)	1,867,600(15)	1.65%

* Less than 1%.

- (1) The address for the listed beneficial owners is 13403 Northwest Freeway, Houston, TX 77040-6094.
- (2) Directors and executive officers have sole voting and investment powers of the shares shown unless otherwise indicated.
- (3) Includes 231,250 shares that Mr. Bramanti has the right to acquire upon the exercise of options within 60 days from our record date. Includes 1,125 shares owned of record by Mr. Bramanti's wife in trust for their children and 2,468 shares owned of record by their children. Mr. Bramanti disclaims beneficial ownership of these 3,593 shares.

- (4) Includes 31,250 shares that Mr. Collins has the right to acquire upon the exercise of options within 60 days from our record date.
- (5) Includes 31,250 shares that Mr. Dickerson has the right to acquire upon the exercise of options within 60 days from our record date.
- (6) Includes 59,250 shares that Mr. Duer has the right to acquire upon the exercise of options within 60 days from our record date. Includes 2,006.5 shares owned of record by a family limited partnership.
- (7) Includes 158,333 shares that Mr. Ellis has the right to acquire upon the exercise of options within 60 days from our record date. Includes 375 shares owned of record by Mr. Ellis wife; Mr. Ellis disclaims beneficial ownership of these shares.
- (8) Includes 31,250 shares that Dr. Flagg has the right to acquire upon the exercise of options within 60 days from our record date.

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- (9) Includes 31,250 shares that Mr. Fulkerson has the right to acquire upon the exercise of options within 60 days from our record date. Includes 7,500 shares owned of record in Mr. Fulkerson's IRA. The 39,905 shares Mr. Fulkerson directly owns are held in a collateral custody account and pledged to secure a loan.
- (10) This total does not include 1998.24 shares of common stock Mr. Hamilton has elected to defer under the HCC Insurance Holdings, Inc. Nonqualified Deferred Compensation Plan for Non-Employee Directors. Although Mr. Hamilton does not currently beneficially own the shares, he has the contractual right to receive them upon his separation from service with HCC.
- (11) Includes 185,000 shares that Mr. Kelbel has the right to acquire upon the exercise of options within 60 days from our record date.
- (12) Includes 317,500 shares that Mr. Molbeck has the right to acquire upon the exercise of options within 60 days from our record date.
- (13) Includes 72,500 shares that Mr. Moulton has the right to acquire upon the exercise of options within 60 days from our record date.
- (14) Includes 31,250 shares that Mr. Roberts has the right to acquire upon the exercise of options within 60 days from our record date.
- (15) Includes 1,180,083 shares that all Directors and Named Executive Officers as a group have the right to acquire upon the exercise of options within 60 days from our record date.

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Each director elected at our annual meeting will continue to serve until his successor is duly elected and qualified at the next annual meeting of shareholders in 2010 or until his earlier death, resignation or removal. Each of the nominees is currently a director of HCC. Our Board of Directors has determined that each of Messrs. Duer, Flagg, Hamilton, Oesterreicher, Rosholt, Williams and Wise are independent directors, as that term is defined by the New York Stock Exchange (NYSE). Such directors are collectively referenced in this Proxy Statement as the Independent Directors.

Our management notes that each of the proposed nominees is standing for re-election to our Board of Directors and that each has served our shareholders' interests well during his tenure as a director. Our management believes that HCC and its shareholders benefit from the wide variety of industry and professional experience that characterizes the Independent Director members of our Board of Directors.

The following table presents information concerning persons nominated for election as directors of HCC, including current membership on committees of our Board of Directors, principal occupation or affiliations during the last five years, and certain directorships held. Although our Board of Directors does not contemplate that any of the nominees will be unable to serve, if such a situation arises prior to the annual meeting, the Board may reduce the size of the Board accordingly, or the persons named in the enclosed form of Proxy will vote in accordance with their best judgment for any substitute nominee.

Information Regarding Nominees for Director

Name	Principal Occupation During the Past Five Years	Age	Served as Director Since
Frank J. Bramanti	Mr. Bramanti is a director and, since November 2006, has served as Chief Executive Officer of HCC. Mr. Bramanti has over 20 years experience in the insurance industry. Prior to his becoming CEO, Mr. Bramanti had been retired from his position as an Executive Vice President of HCC since the end of 2001. From 1980 until his retirement, he served HCC in various capacities, including director, Secretary, Chief Financial Officer and interim President. Mr. Bramanti is a member of our Investment and Finance Committee and also serves as a director and officer of several of our subsidiaries.	52	1997
Walter M. Duer	Mr. Duer is a Certified Public Accountant and a retired partner in the international accounting firm KPMG LLP, where he was employed from 1968 through 2004. Mr. Duer is a member of our Audit and our Investment and Finance Committees.	62	2004
Edward H. Ellis, Jr.	Mr. Ellis is a director and an Executive Vice President and the Chief Financial Officer of HCC. Mr. Ellis is a Certified Public Accountant with over 32 years of public accounting experience. Prior to joining us in 1997, Mr. Ellis served as a partner	66	2001

specializing in the insurance industry in the international accounting firm PricewaterhouseCoopers LLP from 1988 to 1997. Mr. Ellis is a member of our Investment and Finance Committee and also serves as a director and officer of several of our subsidiaries.

James C. Flagg, Ph. D.	Dr. Flagg is a Certified Public Accountant and an Associate Professor in the Department of Accounting in the Mays Business School at Texas A&M University, where he has taught since 1988. Dr. Flagg holds a Master of Science in Economics, an M.B.A. and a Ph.D. in Accounting. Dr. Flagg is Chairman of our Audit Committee and a member of our Nominating and Corporate Governance Committee. He is a member of the board of the Texas State Board of Public Accountancy.	57	2001
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Name	Principal Occupation During the Past Five Years	Age	Served as Director Since
Thomas M. Hamilton	Mr. Hamilton has been Co-owner of Medora Investments, a private investment firm, since 2003. He served as the Chairman, President and Chief Executive Officer of EEX Corporation from 1997 until his retirement in 2002. Previously, Mr. Hamilton held various executive positions at other oil and gas companies, including Pennzoil, BP and Exxon. Mr. Hamilton serves on our Compensation Committee and is the Chairman of our Nominating and Corporate Governance Committee. Mr. Hamilton is a director of FMC Technologies, Inc. (NYSE symbol: FTI), Hercules Offshore, Inc. (Nasdaq symbol: HERO) and Methanex Corporation (Nasdaq global market symbol: MEOH). Mr. Hamilton was identified as a potential candidate for our Board by Korn/Ferry International.	65	2008
John N. Molbeck, Jr.	Mr. Molbeck is a director and, since 2006, has served as President and Chief Operating Officer of HCC, a position he previously held from 1997 to 2002. From 2003 through 2005, Mr. Molbeck served as Chief Executive Officer of Jardine Lloyd Thompson LLC, a retail insurance brokerage firm, which was, at the time, a subsidiary of Jardine Lloyd Thompson Group, plc (London Stock Exchange code: JLT). Prior to initially joining HCC in 1997, Mr. Molbeck had been the Managing Director of Aon Natural Resources Group, a subsidiary of Aon Corporation (NYSE symbol: AOC). Mr. Molbeck is a member of our Investment and Finance Committee and an ex officio member of our Enterprise Risk Oversight Committee. He also serves as a director and officer of several of our subsidiaries.	62	2005
James E. Oesterreicher	Mr. Oesterreicher is the Retired Chairman of the Board of J.C. Penney Company, Inc. He served as Chairman of the Board and Chief Executive Officer from 1997 until 2000 and as Vice Chairman and Chief Executive Officer from 1995 to 1997. Mr. Oesterreicher is Chairman of our Compensation Committee and a member of our Nominating and Corporate Governance Committee. In 2008, he also served on our Special Litigation Committee, which completed its work and disbanded in April 2008, in connection with certain derivative litigation. Mr. Oesterreicher also serves as a director of Brinker International, Inc. (NYSE symbol: EAT) and on the boards of Texas Health Resources, Circle Ten Council Boy Scouts of America, National March of Dimes Advisory Board and Spina Bifida Birth Defects Foundation.	67	2007

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Name	Principal Occupation During the Past Five Years	Age	Served as Director Since
Robert A. Rosholt	Mr. Rosholt is the former Chief Financial Officer for Nationwide Mutual Insurance Company from 2002 to 2008. Prior to joining Nationwide, Mr. Rosholt served as Executive Vice President and Chief of Operations at the risk services unit of Aon Corporation, a leading global provider of risk management services, insurance and reinsurance brokerage and human capital consulting, from 2000 to 2002. Mr. Rosholt also served as Chief Financial Officer at First Chicago Corporation and its successor companies including Bank One, from 1974 to 2000, where he had oversight for capital and asset liability management as well as proprietary investment activities. Mr. Rosholt is a member of our Audit Committee and is Chairman of our Enterprise Risk Oversight Committee. Mr. Rosholt is a director of Abercrombie & Fitch Co. (NYSE symbol: ANF) and a member of the advisory board of the Financial Institution Advisory Services of Alvarez and Marsal. Mr. Rosholt was identified as a potential candidate for our Board by Korn/Ferry International.	59	2008
Christopher J. B. Williams	Mr. Williams is currently Chairman of Wattle Creek Winery, a position he has held since retiring as National Director for Life, Accident & Health of Willis Re in 2005. He has over 30 years of insurance industry experience. Mr. Williams is the Chairman of our Board of Directors, a position he assumed in August 2008. Mr. Williams is a member of our Enterprise Risk Oversight and our Compensation Committees. He also serves as an ex officio member of our Audit, our Nominating and Corporate Governance and our Investment and Finance Committees. In 2008, Mr. Williams served on our Special Litigation Committee, which completed its work and disbanded in April 2008, in connection with certain derivative litigation.	53	2007
Scott W. Wise	Mr. Wise is currently the Chief Investment Officer for Rice University, a position he has held since 1989. Mr. Wise is responsible for all endowment matters for Rice University, including asset allocation, selection and management of investment managers, investment performance and endowment spending. Mr. Wise is also responsible for developing and overseeing Rice University's debt financing program. Mr. Wise is Chairman of our Investment and Finance Committee and is a member of our Enterprise Risk Oversight Committee.	59	2008

Our Board of Directors recommends that our shareholders vote **FOR each of the proposed nominees.**

Information Regarding Executive Officers Who Are Not Nominees for Director

Name	Principal Occupation During the Past Five Years	Age	Served the Company Since
Barry J. Cook	Mr. Cook is an Executive Vice President of HCC and is the Chief Executive Officer of HCC Insurance Holdings (International) Limited. Mr. Cook oversees our international operations. From 1992 to 2005, Mr. Cook served as Chief Executive Officer of Rattner Mackenzie Limited, which we acquired in 1999. Mr. Cook also serves as a director and officer of several of our subsidiaries.	48	1999

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Name	Principal Occupation During the Past Five Years	Age	Served the Company Since
Craig J. Kelbel	Mr. Kelbel is an Executive Vice President of HCC and is the President and Chief Executive Officer of HCC Life Insurance Company. Mr. Kelbel oversees our group life, accident and health operations. Prior to joining us, Mr. Kelbel was the President of USBenefits Insurance Services, Inc. and a Vice President of its parent, The Centris Group, Inc., which was acquired by HCC in 1999. Mr. Kelbel has over 28 years of experience in the insurance industry. Mr. Kelbel also serves as a director and officer of several of our subsidiaries.	54	1999
Cory L. Moulton	Mr. Moulton is the Executive Vice President U.S Property and Casualty Operations of HCC. Mr. Moulton oversees our domestic property and casualty operations. Mr. Moulton has served as the Chief Executive Officer of our subsidiary Professional Indemnity Agency, Inc., from 2005 to the present. He was previously the General Partner of Tobat Capital, LLC, a venture capital firm that invested in early stage financial services technology companies, from 2000 to 2005, and served in various capacities with E. W. Blanche, an international reinsurance intermediary, including President International Operations, from 1992 to 2000. Mr. Moulton also serves as a director and officer of several of our subsidiaries.	40	2005
Pamela J. Penny	Ms. Penny is Executive Vice President and Chief Accounting Officer of HCC. She previously served as Senior Vice President Finance from 2004 to November 2008. Prior to joining us, Ms. Penny served as Senior Vice President and Controller for Aegis Mortgage Corporation from 2003 to 2004 and served in varying capacities with American International Group, Inc. (formerly American General Corporation), including Senior Vice President & Controller of American General, from 1991 to 2003. She was previously a partner in the international accounting firm KPMG LLP. Ms. Penny is a Certified Public Accountant and also serves as a director and officer of several of our subsidiaries.	54	2004
Randy D. Rinicella	Mr. Rinicella is Senior Vice President and General Counsel of HCC. Prior to joining us, Mr. Rinicella was the Vice President, General Counsel and Secretary of Dresser Rand Group, Inc., a publicly-traded equipment supplier to the worldwide oil, gas, petrochemical and process industries, from 2005 until 2007. Mr. Rinicella was a shareholder at the national law firm of Buchanan Ingersoll PC from 2004 until 2005, where he was a member of the firm's corporate finance department, and from	51	2007

2002 to 2004, he was a partner in the law firm of Roetzel & Andress. Mr. Rinicella serves as a director and officer of several of our subsidiaries.

Michael J. Schell	Mr. Schell is Executive Vice President and Chief Underwriting Officer of HCC, the Chief Executive Officer of Houston Casualty Company and other of our insurance company subsidiaries, and oversees our domestic surety and credit operations. Prior to joining us in 2002, Mr. Schell was with the St. Paul Companies for 25 years, most recently as President and Chief Operating Officer of St. Paul Re. Mr. Schell also serves as a director and officer of several of our subsidiaries.	58	2002
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Executive Sessions of the Board of Directors

Independent Directors meet regularly in executive session at each regularly scheduled meeting of our Board of Directors. Christopher J.B. Williams, as the independent Chairman of the Board, serves as the presiding director at each executive session. Our Independent Directors met in executive session four times in 2008.

Communications with Directors

Our Board of Directors has adopted corporate governance guidelines that provide that our shareholders and other interested parties may communicate with one or more of our directors by mail in care of: James L. Simmons, Secretary, HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094. Such communications should specify the intended recipient or recipients. All such communications, other than unsolicited commercial solicitations, will be forwarded to the appropriate director, or directors, for review.

Board Attendance at the Annual Meeting

Our policy is to have our directors attend our annual meeting. Last year, all of our then-serving directors attended the annual meeting.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that is applicable to all of our directors, officers and other employees. The Code is posted under the Corporate Governance portion of the Investor Relations section on our website at www.hcc.com and is available to any shareholder upon request.

Director Independence

Our Board of Directors has established criteria for determining director independence as set forth in our Corporate Governance Guidelines. In particular, no director shall be deemed to be independent unless the Board, as a whole, shall have affirmatively determined that no material relationship exists between such director and HCC other than the director's service as a member of our Board of Directors. In addition, the following criteria apply to determine independence:

no director who is an employee, or whose immediate family member is an executive officer of HCC, is deemed independent until three years after the end of such employment relationship;

no director who receives, or whose immediate family member receives, more than \$120,000 in any twelve-month period in direct compensation from HCC, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is deemed independent until three years after he or she ceases to receive more than \$120,000 in any twelve-month period of such compensation;

no director is independent who (i) is a current partner or employee of a firm that is HCC's internal or external auditor; (ii) has an immediate family member who is a current partner of such firm; (iii) has an immediate family member who is a current employee of such firm and personally works on the HCC's audit; or (iv) was or had an immediate family member who was within the last three years a partner or employee of such firm and personally worked on HCC's audit within that time;

no director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of our present executives serve on that company's compensation committee is deemed independent until three years after the end of such service or the employment relationship;

no director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, HCC for property or services in an amount that, in any single fiscal year, exceeds the greater of \$1.0 million or 2% of such other company's consolidated gross revenues, is deemed independent until three years after falling below such threshold;

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no director who has a personal services contract with HCC, or any member of HCC's senior management is independent;

no director who is affiliated with a not-for-profit entity that receives significant contributions from HCC is independent;

no director who is employed by a public company at which an executive officer of HCC serves as a director is independent;

no director is independent who received, during calendar years 2004-2007, remuneration, directly or indirectly, as a result of service as, or compensation paid to an entity affiliated with the director that serves as:

an advisor, consultant, or legal counsel to HCC or to a member of HCC's senior management; or

a significant customer or supplier of HCC;

no director who, during calendar years 2004-2007, had any business relationship with HCC for which HCC has been required to make disclosure under Item 404(a) of Regulation S-K (Transactions with Related Persons) is independent provided that transactions disclosed in our 2007 proxy statement are grandfathered into this requirement;

no director who had any relationship described in the first bullet point above or in any of the sixth through the tenth bullet points above with any affiliate of HCC is independent; and

no director who is a member of the immediate family of any person who fails to satisfy the independence requirements described in the first bullet point above or in any of the sixth through the eleventh bullet points above is independent.

In addition, members of our Audit Committee must meet the following additional independence requirements:

no director who is a member of the Audit Committee shall be deemed independent if such director is affiliated with HCC or any of its subsidiaries in any capacity, other than in such director's capacity as a member of our Board of Directors, the Audit Committee or any other Board committee; and

no director who is a member of the Audit Committee shall be deemed independent if such director receives, directly or indirectly, any consulting, advisory or other compensatory fee from HCC or any of its subsidiaries, other than fees received in such director's capacity as a member of our Board of Directors, the Audit Committee or any other Board committee, and fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with HCC (provided such compensation is not contingent in any way on continued service).

In addition to the independence standards above, unless otherwise prohibited by NYSE rules, the Board has determined that any commercial or charitable relationship that is not required to be reported in a proxy statement will not be considered a material relationship that would impair a director's independence.

Our Board of Directors has affirmatively determined that each of Messrs. Duer, Flagg, Hamilton, Oesterreicher, Rosholt, Williams and Wise meets the general criteria for independence set forth above and that all members of the Audit Committee meet the further requirements for independence set forth above.

Meetings and Committees of the Board of Directors

During 2008, our Board of Directors met 11 times and acted by written consent on various other occasions. Each person nominated to be a director attended, or participated via teleconference, in 75% or more of the meetings of the Board of Directors and the meetings of any committee on which he served. Our Board of Directors has standing Audit, Compensation, Enterprise Risk Oversight, Investment and Finance, and Nominating and Corporate Governance Committees, each of which has a written charter. Copies of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee Charters, as well as our Corporate Governance Guidelines, are available under the Corporate Governance portion of the Investor Relations section of our website at

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www.hcc.com. In addition, a printed copy of any of these documents will be provided to any shareholder who requests it.

Audit Committee

Our Audit Committee consists of three Independent Directors. The members of the Audit Committee are Walter M. Duer, James C. Flagg (Chairman) and Robert A. Rosholt. In addition, Christopher J.B. Williams serves as an ex officio member of the Audit Committee. The Audit Committee met seven times in 2008.

The Audit Committee's primary purpose is to assist our Board of Directors' oversight of (a) the integrity of our consolidated financial statements and disclosures; (b) our compliance with legal and regulatory requirements; (c) our independent registered public accounting firm's qualifications, performance, independence and fees; and (d) our internal audit function. The Audit Committee has the sole authority to appoint and terminate our independent registered public accounting firm. Our Board of Directors has determined that each of Messrs. Duer, Flagg and Rosholt is an audit committee financial expert as described in Item 407(d)(5)(ii) of the SEC's Regulation S-K. In addition, our Board of Directors has determined that each member of the Audit Committee is independent, as independence for audit committee members is defined in the listing standards of the NYSE. The Audit Committee is established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934.

Compensation Committee

Our Compensation Committee consists of three Independent Directors. The members of the Compensation Committee are Thomas H. Hamilton, James E. Oesterreicher (Chairman) and Christopher J. B. Williams. The Compensation Committee met nine times in 2008.

The Compensation Committee has the responsibility for assuring that our senior executives are compensated in a manner that is consistent with the compensation philosophy and strategy of our Board of Directors and that is in compliance with the requirements of the regulatory bodies that oversee our operations. Generally, the Compensation Committee is charged with the authority to review and approve our compensation philosophy and our executive compensation programs, levels, plans and awards. The Compensation Committee also administers our incentive plans and our stock-based compensation plans and reviews and approves general employee benefit plans on an as-needed basis. The Compensation Committee also has the authority to retain, approve fees and other terms for, and terminate any compensation consultant, outside counsel, accountant or other advisor hired to assist the Compensation Committee in the discharge of its responsibilities. The Chief Executive Officer makes recommendations to the Compensation Committee with respect to the form and amount of executive compensation. In addition, under our Compensation Committee Charter and under our 2008 Flexible Incentive Plan, the Compensation Committee may delegate its authority under such plans to management; however, under our currently existing internal controls with respect to our stock option granting practices, such authority may not be delegated with respect to the granting of options. The Compensation Committee charter allows delegation of Committee authority to subcommittees. See the Compensation Discussion and Analysis below for information on our process and procedures for determining 2008 executive officer compensation. Our Board of Directors has determined that each member of the Compensation Committee is independent, as independence for compensation committee members is defined in the listing standards of the NYSE.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is or has been an officer or employee of us or any of our subsidiaries. No executive officer of ours served as a member of the Board of Directors or compensation committee (or other Board committee performing similar functions or, in the absence of any such committee, the entire Board of Directors) of

another corporation, one of whose executive officers served on our Compensation Committee or as our director. No executive officer or director had a relationship with us requiring disclosure under Regulation S-K Item 404.

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Enterprise Risk Oversight Committee

The Enterprise Risk Oversight Committee was established in August 2008. Our Enterprise Risk Oversight Committee consists of three independent directors. The members of the Enterprise Risk Oversight Committee are Robert A. Rosholt (Chairman), Christopher J.B. Williams and Scott W. Wise. In addition, John N. Molbeck, Jr. serves as an ex officio member of the Enterprise Risk Oversight Committee. The Enterprise Risk Oversight Committee met one time in 2008.

The Enterprise Risk Oversight Committee is charged with assisting the Board of Directors with oversight of management's responsibility to identify, assess, prioritize and manage all material risks to HCC's business objectives. In this regard, the Enterprise Risk Oversight Committee reviews management's assessment of risks and mitigation strategies with respect to our business.

Investment and Finance Committee

Our Investment and Finance Committee consists of five directors. The members of the Investment and Finance Committee are Frank J. Bramanti, Walter M. Duer, Edward H. Ellis, Jr., John N. Molbeck, Jr. and Scott W. Wise (Chairman). In addition, Christopher J.B. Williams serves as an ex officio member of the Investment and Finance Committee. The Investment and Finance Committee met seven times in 2008.

The Investment and Finance Committee is charged with establishing investment policies for us and our subsidiaries and directing the investment of our funds, and those of our subsidiaries, in accordance with those policies. In this regard, the Investment and Finance Committee oversees the investment management activities of our third-party investment managers and oversees our corporate financing activities.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee consists of three Independent Directors. The members of the Nominating and Corporate Governance Committee are James C. Flagg, Thomas M. Hamilton (Chairman) and James E. Oesterreicher. In addition, Christopher J.B. Williams serves as an ex officio member of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee met 10 times in 2008.

The Nominating and Corporate Governance Committee is charged with identifying and making recommendations to our Board of Directors of individuals suitable to become members of the Board of Directors and overseeing the administration of our various policies related to corporate governance matters. Our Board of Directors has determined that each member of the Nominating and Corporate Governance Committee is independent, as independence for nominating committee members is defined in the listing standards of the NYSE.

Director Nominations

The Nominating and Corporate Governance Committee has established certain criteria as guidelines in considering nominations for the Board of Directors. The criteria include:

- the candidate's independence;
- the candidate's depth of business experience;
- the candidate's availability to serve;

the candidates integrity and personal and professional ethics;

the balance of the business experience on the Board as a whole; and

the need for specific expertise on the Board.

These criteria are not exhaustive, and the Nominating and Corporate Governance Committee and the Board of Directors may consider other qualifications and attributes that they believe are appropriate in evaluating the ability of an individual to serve as a member of the Board of Directors. The Nominating and Corporate Governance Committee's goal is to assemble a Board of Directors that brings to us a variety of perspectives and skills derived

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from high quality business and professional experience. In order to ensure that the Board consists of members with a variety of perspectives and skills, the Nominating and Corporate Governance Committee has not set any minimum qualifications and also considers candidates with appropriate non-business backgrounds. Other than ensuring that at least one independent member of the Board is a financial expert and a majority of the Board members meet all applicable independence requirements, the Nominating and Corporate Governance Committee does not have any specific skills that it believes are necessary for any individual director to possess. Instead, the Committee evaluates potential nominees based on the contribution such nominee's background and skills could have upon the overall functioning of the Board.

The Board of Directors believes that, based on the Nominating and Corporate Governance Committee's knowledge of our Corporate Governance Principles and the needs and qualifications of the Board at any given time, the Nominating and Corporate Governance Committee is best equipped to select nominees that will result in a well-qualified and well-rounded Board of Directors. In making its nominations, the Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue their service. Current members with qualifications and skills that are consistent with the Nominating and Corporate Governance Committee's criteria for Board service are generally re-nominated. When identifying new candidates to serve on our Board, the Nominating and Corporate Governance Committee undertakes a process that will entail the solicitation of recommendations from any of our incumbent directors, our management or our shareholders. Following a review of the qualifications, experience and backgrounds of these candidates, the Nominating and Corporate Governance Committee will make its recommendation to the Board of Directors. In addition, the committee has the authority under its charter to retain a search firm for this purpose. In 2008, the committee retained Korn/Ferry International to assist in identifying candidates to serve on our Board.

Shareholder Recommendations

The Charter of the Nominating and Corporate Governance Committee provides that the committee will consider proposals for nominees for director from shareholders. Shareholder nominations for director should be made in writing to James L. Simmons, Secretary, HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094. The Nominating and Corporate Governance Committee will consider candidates recommended by shareholders based on the criteria described above. Although the Nominating and Corporate Governance Committee will consider candidates to the Board, the Board may determine not to nominate those candidates.

In order to recommend a director to be nominated at a meeting of shareholders, we require that a shareholder follow the procedures set forth in this section. In order to recommend a nominee for a director position, a shareholder must be a shareholder of record at the time such shareholder gives notice of recommendation and must be entitled to vote for the election of directors at the meeting at which such nominee will be considered. Shareholder recommendations must be made pursuant to written notice delivered to our Secretary at the principal executive offices of HCC:

in the case of a nomination for election at an annual meeting, not less than 45 nor more than 75 days prior to the first anniversary of the date of our notice of annual meeting for the preceding year's annual meeting; and

in the case of a special meeting at which directors are to be elected, not later than the close of business on the later of the 90th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the meeting and of the nominees proposed by our Board of Directors to be elected at the special meeting.

In the event that the date of the annual meeting is changed by more than 30 days from the anniversary date of the preceding year's annual meeting, the shareholder notice described above will be deemed timely if it is received not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the

day on which public announcement of the date of such meeting is first made.

The shareholder notice must set forth the following:

as to each person the shareholder proposes to nominate for election as a director, all information relating to such person that would be required to be disclosed in solicitations of proxies for the election of such

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nominees as directors pursuant to Regulation 14A under the Exchange Act, and such person's written consent to serve as a director if elected; and

as to the nominating shareholder and the beneficial owner, if any, on whose behalf the nomination is made, such shareholder's and beneficial owner's name and address as they appear on our books, the class and number of shares of our common stock that are owned beneficially and of record by such shareholder and such beneficial owner, and an affirmative statement of whether either such shareholder or such beneficial owner intends to deliver a proxy statement and form of proxy to a sufficient number of shareholders to elect such nominee or nominees.

In addition to complying with the foregoing procedures, any shareholder recommending a director candidate must also comply with all applicable requirements of the Exchange Act, including the rules and regulations under such Act.

Special Litigation Committee

In May 2007, our Board of Directors formed a Special Litigation Committee of independent, disinterested directors to undertake a review of the derivative and class action litigation that arose from our disclosures with regard to our past stock option granting practices. The Special Litigation Committee was composed of two independent, disinterested directors. The members were James E. Oesterreicher and Christopher J.B. Williams. The Special Litigation Committee did not hold any meetings during 2008. The Special Litigation Committee completed its duties and was disbanded on April 1, 2008.

Certain Relationships and Related Transactions

We are not a party to any transaction with executive officers or directors that is required to be disclosed under Item 404(a) of Regulation S-K.

There are no family relationships among the executive officers and directors, and there are no arrangements or understandings between any Independent Director or any other person pursuant to which that Independent Director was selected as a director.

Board Ratification of Related Transactions

Not less than annually, our Board of Directors undertakes the review and approval of all related-party transactions. This policy covers any transaction valued at greater than \$120,000 between us or our subsidiaries and any of our executive officers, directors, nominees for director, holders of greater than five percent of our shares, and any of such parties' immediate family members. Under our policy, covered transactions are to be reviewed by the disinterested members of our Board of Directors, who shall satisfy themselves that (i) all material facts with respect to the transaction have been disclosed to the Board of Directors for its consideration and (ii) that the transaction is fair to HCC. As a result of this review, approval of a transaction may be denied if the transaction is not fair to HCC or is otherwise a violation of our Code of Business Conduct and Ethics. Our policy is in writing and can be found in our Corporate Governance Guidelines.

Advances of Defense Costs for Certain Litigation Matters

Certain members of our current Board of Directors and certain current and former officers and directors were named as defendants in lawsuits arising out of the issues related to our past practices related to granting stock options. The current and former directors and officers who were named as defendants in these actions have a legal right under Delaware corporate law, indemnification agreements with us and our bylaws to advancement of their costs of defense.

Accordingly, in 2008, we advanced defense costs of approximately \$0.2 million on behalf of our

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Named Executive Officers and directors. We recovered a significant portion of these monies advanced from our directors and officers liability insurance.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, as defined under the Exchange Act, and persons who own more than 10% of a registered class of our equity securities to file initial reports of ownership and changes in ownership with the SEC. Such executive officers, directors and shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Mr. Hamilton's initial grant of 1,988 common shares upon his joining our Board on November 20, 2008, the receipt of which shares was deferred by Mr. Hamilton under our Non-Employee Director Deferred Compensation Plan, was not timely filed on Form 4, but such grant has been subsequently reported on Form 4. Otherwise, based solely upon a review of the copies of such forms furnished to us and written representations from our directors and executive officers, all persons subject to the reporting requirements of Section 16(a) filed all required reports on a timely basis in 2008.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis explains the philosophy underlying our compensation strategy and the fundamental elements of compensation paid to our Chief Executive Officer, Chief Financial Officer, and other individuals, whom we refer to as Named Executive Officers or executive officers, included in the Summary Compensation Table for the 2008 calendar year. Specifically, this Compensation Discussion and Analysis addresses the following:

Objectives of our compensation programs;

What our compensation programs are designed to reward;

Elements of compensation provided to the Named Executive Officers;

How we determine each element of compensation and why we pay each element;

How we determine executive officer compensation; and

Other important compensation policies affecting the Named Executive Officers.

Objectives of Our Compensation Programs

Our business plan is shaped by our underlying business philosophy, which is to maximize underwriting profit and net earnings while preserving and achieving long-term growth of shareholders' equity. As a result, our primary objective is to increase net earnings rather than market share or gross written premium.

In our ongoing operations, we will continue to:

emphasize the underwriting of lines of business in which we anticipate we will earn underwriting profits (based on various factors, including premium rates, the availability and cost of reinsurance, policy terms and conditions, and general market conditions);

limit our insurance companies' aggregate net loss exposure from a catastrophic loss through prudent, limited underwriting,

the use of reinsurance for those lines of business exposed to such losses, and

diversification into lines of business not exposed to such losses; and

consider the potential acquisition of specialty insurance operations and other strategic investments.

With the goal of assisting in achieving the foregoing business strategy, our Compensation Committee designs our compensation programs to:

recruit and retain top executive officers who are experienced, highly qualified individuals in a position to make significant contributions to our success;

provide incentives to motivate executive officers to ensure exceptional performance and desired financial results and to reward such performance;

provide an opportunity for executives to develop a significant ownership stake in our company; and

align the executive officers' interests with the long-term interests of our shareholders.

What Our Compensation Programs Are Designed to Reward

Our compensation programs are designed to reward executive officers who are capable of leading us in achieving our business strategy on both a short-term and long-term basis. In addition, we reward qualities that we believe help achieve our strategy such as:

individual performance in light of general economic and industry-specific conditions;

individual performance that supports our core values;

teamwork;

resourcefulness;

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the ability to manage our business;

level of job responsibility; and

tenure with our company.

Elements of Compensation Provided to the Named Executive Officers

We have determined that our company's and our shareholders' interests are best served by entering into multi-year employment agreements with the Named Executive Officers. Such agreements are the result of arms-length negotiations between the Named Executive Officer and the Compensation Committee. We believe that such multi-year employment arrangements benefit us and our shareholders by permitting us to attract and retain executive officers with demonstrated leadership abilities and to secure the services of such executive officers over an extended period of time. In addition, multi-year employment agreements align executive interests with the long-term interests of HCC and serve our recruitment and retention goals by providing executive officers with security based on the knowledge of how they will be compensated over the term of the agreement. A summary of the principal terms of these employment agreements is included below under the caption "Employment Agreements and Potential Payments Upon Termination or Change of Control."

The elements of compensation we used during 2008 to compensate the Named Executive Officers included:

Base salary;

Annual incentives;

Long-term equity awards;

Nonqualified deferred compensation;

Perquisites; and

Employee benefits, including

Health and insurance plans, and

Retirement benefits.

How We Determine Each Element of Compensation and Why We Pay Each Element

General. In the following section, we discuss each element of compensation listed above, why we elect to pay each element of compensation and how each element of compensation was determined by the Compensation Committee. In determining the amounts of each element and the aggregate compensation for our Named Executive Officers, we do not use any specific formulae or attempt to satisfy any specific ratio for compensation among our executive officers. We also do not generally target any particular allocation for base salary, annual incentive, or long-term equity awards as a percent of total compensation. The Compensation Committee has not engaged in any formal benchmarking processes with respect to compensation of Named Executive Officers. The Compensation Committee has instead relied on the general knowledge, experience and good judgment of its members, both with regard to competitive compensation levels and the relative success that our company has achieved.

Pay decisions for our Named Executive Officers are based on a reasoned, subjective assessment of objective and subjective factors that are weighted as follows:

two-thirds based on a consideration of our performance during a given year against our budgeted performance as determined during our annual budgeting process; and

one-third based on an assessment of individual factors with respect to the particular Named Executive Officer.

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For the two-thirds based on our budgeted performance goals, the Compensation Committee considers each of four factors. The Compensation Committee believes these factors are appropriate measures in determining whether the objectives of our compensation programs are being met. In particular, the Compensation Committee considers:

- our actual combined ratio compared to budgeted combined ratio;
- our actual return on equity compared to budgeted return on equity;
- our actual total underwriting profit compared to budgeted total underwriting profit; and
- our actual net investment income compared to budgeted net investment income.

For the one-third based on an assessment of individual factors, the Compensation Committee considers:

- the executive's individual performance;
- the executive's future potential;
- the executive's years of service;
- the executive's level of experience;
- the executive's areas of responsibility; and
- the executive's total compensation opportunities relative to compensation opportunities of other members of management of HCC and its subsidiaries.

Because of the significant incentive opportunities available to managers of our subsidiaries based on the subsidiary's performance, the Compensation Committee also evaluates total compensation to our Named Executive Officers to ensure overall fairness between the compensation opportunities available at both the subsidiary and the corporate level. The differences in the aggregate compensation between our Chief Executive Officer, our President and Chief Operating Officer, and our other Named Executive Officers reflect the greater relative responsibilities with respect to their respective positions.

Base Salary. Base salary provides a fixed base level of compensation for our executives for the services they render during the year. The purpose of base salary is to compensate our Named Executive Officers in light of their respective roles and responsibilities over time. Base salary is essential to allow us to compete in the employment marketplace for talent and is an important component of total compensation for the Named Executive Officers. It is vital to our goal of recruiting and retaining executive officers with proven abilities. The level of base salary for each Named Executive Officer was established in the executive officer's employment agreement upon the date of hire or the date of renewal of an existing employment agreement. Base salary was initially determined for each executive officer based on the abilities, qualifications, accomplishments, and prior work experience of the executive officer. Base salary in a renewal agreement was determined based on the same criteria, but also on how the executive officer performed under his previously existing agreement and on the length of the executive officer's tenure with HCC.

While upward adjustments of base salary are generally specified in the executive officer's employment agreement, adjustments may also be considered on a discretionary basis annually. In deciding whether to make a discretionary increase to a Named Executive Officer's compensation, we consider the consistency of the executive officer's

individual performance over the prior year, changes in the executive officer's responsibilities, the executive officer's future potential and internal equity. We also consider data available from objective, professionally-conducted market studies obtained from a range of industry and general market sources.

In 2008, Mr. Bramanti entered into an amended and restated employment agreement to alleviate the potential adverse effects of Internal Revenue Code Section 409A and to harmonize employment terms among our executive officers. Mr. Moulton agreed to amend his employment agreement during 2008 in connection with his assumption of the role of Executive Vice President - U.S. Property and Casualty Operations and his relocation to our corporate offices in Houston. See Employment Agreements and Potential Payments Upon Termination or Change of Control, below, for further discussion of the terms of the employment contracts of our Named Executive Officers.

Base salary for 2008 and increases, if any, for 2009 were set in accordance with the terms of the respective employment agreements of our Named Executive Officers. These increases are shown in the Summary

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Compensation Table, below. Our Board did not award any discretionary salary increases under existing employment agreements in 2008 or for 2009; however, Mr. Moulton received a base salary increase of \$125,000 or 31.3% in connection with his entering into an amended employment agreement. Our Compensation Committee deemed this increase appropriate to compensate Mr. Moulton for the increased responsibilities related to his new position with HCC, to serve our retention goals with respect to Mr. Moulton, and to achieve equity, both among similarly situated Named Executive Officers and among our executives at the corporate level and at the subsidiary level. Based upon their reasoned subjective assessment of the market as well as data available from objective, professionally-conducted market studies obtained from a range of industry and general market sources, the members of the Committee deemed the increase to be reasonable.

Annual Incentives. Annual incentive compensation is intended to motivate and reward our Named Executive Officers for performance in achieving our business objectives.

2008 Flexible Incentive Plan. In 2008, our Board adopted and our shareholders approved the HCC Insurance Holdings, Inc. 2008 Flexible Incentive Plan. Under the 2008 Plan, we pay performance awards in the form of annual cash incentive compensation payments. The 2008 Plan is intended to advance our interests and those of our shareholders,

- by rewarding superior performance;
- by motivating our Named Executive Officers;
- by attracting and retaining key executives; and
- by fostering accountability and teamwork.

Under the 2008 Plan, we grant awards of incentive compensation that may be paid to a participant upon our satisfaction of corporate performance goals. We limit cash performance awards under the 2008 Plan to our Chief Executive Officer and any of our other employees whose compensation is potentially subject to the deductibility limitations of Section 162(m) of the Internal Revenue Code. Participants are designated by our Compensation Committee. For 2008, Messrs. Bramanti, Ellis, Molbeck and Kelbel participated in cash performance awards under the 2008 Plan. Mr. Moulton did not participate because he was not expected to be subject to Section 162(m) for 2008. Our Compensation Committee established maximum bonus amounts for each of these executives, expressed as a percentage of pretax income for HCC. Those maximum targets were as follows: Mr. Bramanti 1.0%, Mr. Ellis 0.25%, Mr. Molbeck 0.5% and Mr. Kelbel 0.1%. For 2008, our pretax income was \$436.3 million. After the conclusion of the calendar year, the Compensation Committee calculates the maximum bonus amount based on the compensation targets established for each executive officer and then determines the actual bonus payment amounts based on a reasoned, subjective assessment of objective and subjective factors (including actual operating results against budget, the achievement of personal objectives, individual performance and equitable considerations among similarly situated executives) to arrive at the actual bonus amount for a particular executive officer, which in each case is equal to or less than the maximum bonus amount under the plan.

Our Compensation Committee uses negative discretion in determining the actual annual cash incentive awards for the participants in the 2008 Plan as allowed under Section 162(m). For purpose of Section 162(m), the maximum annual incentive award is determined to the extent we achieve our performance goal of pretax income. The Compensation Committee then exercises its negative discretion to reduce the actual annual incentive awards to reflect actual corporate, business unit and individual performance. By setting a high amount that can then be reduced, we believe our annual incentive payments qualify for full deductibility under Section 162(m). Any reduction is not a negative reflection on the performance of our company or our Named Executive Officers, but rather is done to ensure

maximum flexibility with respect to the payment of performance-based bonuses. If the Compensation Committee were to have instead funded the incentive pool at a minimum threshold and used discretion to increase the amounts to reflect company and individual performance, actual payouts would not qualify for the Section 162(m) tax deduction. For further information on Section 162(m), see the description of Section 162(m) on page 21 of this proxy statement.

Discretionary Annual Incentive. Named Executive Officers who are not participants in the 2008 Plan are eligible for a discretionary annual incentive award. These discretionary annual bonuses are designed to advance our

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interests and those of our shareholders and to achieve the same goals as those set forth in the discussion of the 2008 Plan, above, in that they reward, motivate, attract and retain key executives and foster accountability and teamwork. Mr. Moulton's annual cash bonus for 2008 was subject to the discretion of the CEO and the Compensation Committee. Mr. Moulton was entitled to and received a minimum annual bonus for 2008 of \$400,000 under the terms of the amended and restated employment agreement he entered into in connection with his relocation to Houston and assumption of the duties of Executive Vice President - U.S. Property and Casualty Operations.

For 2008, we determined the actual payouts under our 2008 Plan and the actual amount of the discretionary bonus for Mr. Moulton based on individual performance and company performance, including the following factors:

- Combined ratio of 85.4% against budget of 85.1%;
- Return on average equity for 2008 of 12.0% against budget of 13.8%;
- Total underwriting profits of \$544.6 million against budget of \$552.9 million;
- Overall investment results of \$164.8 million against budget of \$218.2 million;
- Individual effort by the executive in assisting us to achieve our goals;
- Our performance relative to peers;
- Our performance in 2008 relative to prior years;
- Our performance given the general conditions in the industry;
- Equitable considerations among similarly situated officers; and
- Past bonus compensation.

No formula was applied to these measures in arriving at the actual bonus amounts, although performance against budget was weighted roughly two-thirds against one-third for individual factors.

Taking these factors into account and utilizing reasoned, subjective judgment, the Compensation Committee approved bonus payments as follows: Mr. Bramanti \$1,500,000; Mr. Ellis \$400,000; Mr. Molbeck \$1,950,000; Mr. Moulton \$400,000; and Mr. Kelbel \$450,000. Thirty-three percent of the bonus to Messrs. Bramanti and Molbeck was in shares of our common stock, which each of the executives has agreed to retain for so long as he remains an employee of HCC. The Committee believes that the grant of a portion of the bonus in HCC stock serves the goals of our compensation program of aligning the executives' interests with those of our shareholders and providing executives with the opportunity to obtain a significant stake in our company. In each case, for participants in the 2008 Plan, the actual bonus paid was less than the target amount established under the Plan.

Long-Term Equity Awards. We have historically granted stock options, as we believe this element of compensation aligns the employees' and the executive officers' interests with the long-term interests of shareholders. We believe that stock options provide incentive for increased shareholder value because they only provide value to the Named Executive Officers to the extent that the price of our common stock appreciates, and they serve as a good retention vehicle for the Named Executive Officers because they vest based on the executive officer's continued employment. We also grant restricted stock awards that generally cliff vest at a later date. These long-term equity awards also serve the goal of allowing our executives to obtain a significant stake in our company.

In 2008, in connection with his amended and restated employment agreement, we granted 100,000 stock options and 21,857 shares of restricted stock to Mr. Moulton. In determining the amount of these grants, the Compensation Committee considered prior grants made to Mr. Moulton and those to similarly situated executives, the potential value of the awards, the cost of the awards to us and general market conditions and then utilized reasoned, subjective judgment to arrive at a final award. The exercise price of the grant of stock options and the fair value of the restricted shares was set at the closing price of our common stock on the date of the Compensation Committee meeting at which such grants were approved.

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We have granted each executive officer an equity award in connection with his entering a new employment agreement or amending a prior employment agreement with us. Additional equity awards may be made at one of our regularly scheduled Compensation Committee meetings during the year, which are typically held within 30 days of our quarterly earnings releases. The Compensation Committee's policy is to set the exercise price of stock option awards at the closing price of our stock on the date of the Compensation Committee meeting at which such options are granted. We do not coordinate the grant of awards with the release of earnings for any purpose, including the purpose of affecting the value of executive compensation.

Non-qualified Deferred Compensation. Each of Messrs. Bramanti and Molbeck are entitled to the payment of deferred compensation under the terms of his respective employment agreement. We believe the tax benefit bestowed on these executives by our deferring payment of a portion of their compensation is valuable to the executives and assists us in meeting our retention goals. Paying a portion of their base compensation as deferred compensation also ensures their compensation will be fully tax deductible. Consequently, we have adopted non-qualified deferred compensation plans for each of Mr. Bramanti and Mr. Molbeck. The plans are substantially identical and are discussed in more detail under the caption "Deferred Compensation Plans," below.

Perquisites. Our current policy is that the costs of perquisites will constitute only a small percentage of each Named Executive Officer's total compensation. In general, the perquisites that an executive officer is eligible to receive are contained in such executive's employment agreement. In some instances, our Named Executive Officers were provided perquisites by their previous employers, and we offered comparable perquisites in order to attract these Named Executive Officers. Perquisites may include: extended medical benefits; a corporate apartment; an automobile allowance; personal travel on the corporate aircraft; payment of club dues; payment of life and disability insurance premiums; physical exams and payment for estate planning. These benefits are reflected in the All Other Compensation Column of the Summary Compensation Table, below.

Employee Benefits. Our Named Executive Officers have the opportunity to participate in a number of benefit programs that are generally available to all of our U.S. employees. The Named Executive Officers are eligible to participate in company-sponsored benefit programs on the same terms and conditions as those generally provided to other salaried employees; however, in some instances described below, the executives are entitled to additional benefits. These benefits include:

Health and Insurance Plans. Basic health benefits, dental benefits, disability protection, life insurance, and similar programs are provided to make certain that access to healthcare and income protection is available to our employees and the employees' family members. The cost of company-sponsored benefit programs is negotiated by us with the providers of such benefits. In general, the Named Executive Officers contribute to the cost of the benefits; however, medical benefits are provided to Messrs. Bramanti and Molbeck at no cost to them.

In addition, under the terms of their respective employment agreements, each of Messrs. Bramanti, Ellis, Molbeck and Kelbel and their respective qualified beneficiaries, where applicable, is entitled to extended medical benefits under our medical plan after termination of their respective employment. In the case of Messrs. Ellis and Kelbel, such benefits are at no cost to them and extend until they or their respective spouses become eligible for Medicare or the date their respective children would have ceased to be covered under our benefit plans had the executive remained an employee. For each of Messrs. Bramanti and Molbeck, such benefits are at no cost and extend until the later to occur of his death, the death of his spouse (if he is married on the date of his death) or the date their respective children would have ceased to be covered under our benefit plans had the executive remained an employee. We agreed to provide such extended medical benefits to Mr. Bramanti and Mr. Molbeck during each of their previous terms of employment with us.

Retirement Benefits. The Named Executive Officers are eligible to participate in our 401(k) Plan, which is a company-wide, tax-qualified retirement plan. The intent of this plan is to provide all employees with a tax-advantaged savings opportunity for retirement. We sponsor this plan to help employees at all levels save and accumulate assets for use during their retirement. As required, eligible pay under this plan is capped at Internal Revenue Code annual limits.

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How We Determine Executive Officer Compensation

Role of the Compensation Committee. The Compensation Committee is composed of independent, outside members of the Board of Directors in accordance with NYSE rules, current SEC regulations, and Section 162(m) of the Internal Revenue Code and is responsible for establishing, reviewing, approving, and monitoring the compensation paid to the Named Executive Officers.

Under our current policy, the Compensation Committee approves the terms of each Named Executive Officer's employment agreement and any necessary modifications that are needed over time.

The Chief Executive Officer recommends to the Compensation Committee annual pay increases, discretionary annual bonuses, cash incentive awards and long-term incentive grants for the other Named Executive Officers. The Compensation Committee then evaluates each executive officer, determines whether the CEO will receive any annual pay increase, sets performance criteria for discretionary annual incentive bonuses, and makes long-term incentive grants, if any. As part of its evaluation process, the Compensation Committee considers our performance, internal equity and consistency, the executive officer's individual performance over the prior year, changes in responsibilities, and future potential as well as data available from objective, professionally-conducted market studies obtained from a range of industry and general market sources.

The Compensation Committee views the various components of compensation as related, but distinct. As a result, the Compensation Committee has not adopted any policy or guidelines for allocating compensation between long-term and currently paid compensation, between cash and non-cash compensation, or among different forms of non-cash compensation.

Benchmarking. The Compensation Committee did not use benchmarking to set executive compensation in 2008.

Compensation Consultant. The Compensation Committee may retain and engage, at its sole discretion, to the extent deemed necessary and appropriate, any compensation consultants, outside counsel or other advisors, having the sole authority to approve the firm's or advisor's fees and other retention. The Compensation Committee did not engage a compensation consultant in 2008.

Other Important Compensation Policies Affecting the Named Executive Officers

Financial Restatement. The Compensation Committee does not have a policy in place governing retroactive modifications to any cash- or equity-based incentive compensation paid to the Named Executive Officers where the payment of such compensation was predicated upon the achievement of specified financial results that were subsequently the subject of a restatement. However, if the Compensation Committee deems it appropriate and to the extent permitted by applicable law, it will seek to recoup amounts, determined to have been inappropriately paid to an executive officer as a result of a financial restatement.

Stock Ownership Requirements. The Compensation Committee does not maintain a policy relating to stock ownership guidelines or requirements for its Named Executive Officers. The Compensation Committee is reviewing whether such a policy is appropriate for its Named Executive Officers.

Trading in Our Stock Derivatives. Our Insider Trading Policy prohibits our employees, including Named Executive Officers, from purchasing or selling options on our common stock, engaging in short sales with respect to our common stock, or trading in puts, calls, straddles, equity swaps or other derivative securities that are directly linked to our common stock.

Tax Deductibility of the Named Executive Officers Incentive and Equity Compensation. Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public companies for compensation over \$1.0 million paid to a corporation's chief executive officer and the three other most highly compensated executive officers, excluding the chief financial officer.

Section 162(m) further provides that qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. We currently structure our discretionary annual incentive compensation for executive officers to comply with Section 162(m) through the 2008 Flexible Incentive Plan.

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Our current annual incentives satisfy Section 162(m)'s requirement that they be payable solely on account of the attainment of one or more performance goals. Although we intend to structure grants under future stock award plans and cash incentive plans in a manner that complies with this section, we may forego all or some portion of a deduction to conform to our compensation goals.

In connection with the compensation of our executive officers, the Compensation Committee is aware of Section 162(m) as it relates to deductibility of qualifying compensation paid to executive officers. In addition, we are aware of recently adopted Section 409A of the Internal Revenue Code and believe we should structure our compensation plans in ways to minimize the likelihood that our employees, including Named Executive Officers, have to pay the excise taxes set forth under Section 409A. If any provision of an employment agreement we have entered into would cause the Named Executive Officer to incur any additional tax under Section 409A or any Treasury Regulations or IRS guidance, we will attempt to reform such provision in a manner that maintains, to the extent possible, the original intent of the provision without violating Section 409A. In addition, the employment agreements of Messrs. Bramanti, Molbeck, Ellis and Kelbel require us to reimburse the executives for any 409A excise taxes incurred by the executives in the event their employment agreements are not fully 409A-compliant.

In addition, the future exercise of certain options held by Named Executive Officers, which were issued at a grant date price that was less than the measurement date price, may have resulted in compensation to our Named Executive Officers that exceeds the deductibility limitations under Section 162(m). In connection with our stock option review in 2006, we repriced these options before December 31, 2006 so that the grant date price equals the measurement date price. However, notwithstanding such repricing, these options no longer qualify as qualified performance-based compensation under Section 162(m). Therefore, to the extent a Named Executive Officer were to exercise such options during a given year, any gain realized on such exercise would be included in the calculation of non-excluded compensation, and we would not be able to deduct any such compensation that exceeds the deductibility limits. Thus, future option exercise activity that is beyond our control or the Compensation Committee's control could cause non-deductible compensation expense under Section 162(m). This risk will remain until all such repriced options are exercised, terminated or expire.

Change of Control Agreements. Our executive officers' employment agreements provide for severance in the event of change of control. Except for Mr. Molbeck's agreement, payments will only be made under these agreements if there is both a change of control and a termination of employment. This is discussed in more detail under the caption Employment Agreements and Potential Payments Upon Termination or Change of Control below. The Compensation Committee believes this benefit is required to offer competitive benefits to attract and retain highly qualified executives.

Mr. Molbeck is the only Named Executive Officer who currently will be entitled to a payment sufficient to reimburse him fully on an after-tax basis for any tax under Section 4999 of the Internal Revenue Code, as well as any costs associated with resolving the application of such tax to him.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based upon such review, the related discussions and such other matters deemed relevant and appropriate to the Compensation Committee, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement to be delivered to shareholders.

Submitted by the Compensation Committee:

James E. Oesterreicher, *Chairman*

Thomas M. Hamilton
Christopher J. B. Williams

Table of Contents**Summary of Cash and Certain Other Compensation**

The following table provides certain information concerning compensation we paid to or accrued on behalf of our Principal Executive Officer, Principal Financial Officer and the other three most highly compensated executive officers serving at December 31, 2008, who are sometimes referred to in this Proxy Statement collectively as the Named Executive Officers.

2008 Summary Compensation Table

Named Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	Non-equity Incentive Non-qualified Compensation			Total Compensation
						Plan Compensation (\$)(3)	Deferred Earnings (\$)	All Other Compensation (\$)(4)	
Mr. Bramanti Principal Executive Officer	2008	1,950,000(5)		494,983	753,614	1,005,017	1,670	32,958	4,258,242
	2007	1,950,000(5)			626,930	1,950,000	8,393	32,762	4,568,085
	2006	250,000	250,000		71,160				219,640
Mr. Ellis, Jr. Vice President and Principal Financial Officer	2008	525,000			449,100	400,000		20,928	1,395,028
	2007	491,667			483,565	500,000		19,240	1,494,472
	2006	425,000	425,000		588,848			20,076	1,438,924
Mr. Molbeck, Jr. and Principal Operating Officer	2008	1,350,000(6)		643,483	709,191	1,306,517	491	96,867	4,006,459
	2007	1,253,035(6)			625,666	2,500,000	1,319	91,234	4,470,254
	2006	838,103(6)	150,000		453,293	250,000		185,541	1,676,947
Mr. Moulton Vice President Property & Casualty Business	2008	441,667	400,000	47,793	260,893			928,587	2,178,940
Mr. Melbel Vice President Investment & Health Business	2008	612,000	13,700		545,910	436,300		51,589	1,649,509
	2007	585,000			494,193	367,200		220,323	1,666,716
	2006	450,000	250,000		400,778			66,026	1,156,804

(1) Mr. Bramanti and Mr. Molbeck each received 33% of his annual incentive compensation in shares of HCC stock under the 2008 Flexible Incentive Plan. On February 17, 2009, Messrs. Bramanti and Molbeck were granted 20,676 and 26,879 shares, respectively. Each of the executives has agreed not to dispose of these shares for so long as he remains an employee of HCC. On August 20, 2008, Mr. Moulton was granted 21,857 shares of restricted stock. This column includes the expense we recognized in our 2008 consolidated income statement under Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*. For a discussion of the assumptions used in calculating the fair value of our stock-based compensation, refer to Note 1, *General Information and Significant Accounting and Reporting Policies - Stock-Based Compensation*, and Note 11, *Stock-Based Compensation*, in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

- (2) Stock options that were granted to our Named Executive Officers in 2008 and in prior years generally vest over periods of one to five years. A grant to Mr. Bramanti in 2007 will vest in 2011 based upon our achievement of average return on equity for the four-year period of 2007 through 2010. This column includes the expense we recognized in our 2008, 2007 and 2006 consolidated income statements under Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*. For a discussion of the assumptions used in calculating the fair value of our option awards, refer to Note 1, *General Information and Significant Accounting and Reporting Policies - Stock-Based Compensation*, and Note 11, *Stock-Based Compensation*, in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2008.
- (3) The amounts for 2008 represent cash incentive awards under our 2008 Flexible Incentive Plan.
- (4) For 2008, these amounts include matching 401(k) contributions, life and disability premiums, personal use of corporate aircraft, auto expense, club dues, stock option make-whole payment, corporate apartment, relocation expenses, aggregate incremental cost of guaranteed resale of residence, cost of company-provided physical

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exam and estate planning. Refer to All Other Compensation table, immediately following, for disclosure of amounts included in this column.

- (5) Salary for Mr. Bramanti for 2008 and 2007 includes \$1,000,000 in deferred compensation under the terms of Mr. Bramanti's employment agreement. See 2008 Non-qualified Deferred Compensation Plans below for further information.
- (6) Salary for Mr. Molbeck for 2008 and 2007 includes \$350,000 and \$294,702, respectively, in deferred compensation under the terms of Mr. Molbeck's employment agreement and for 2006, includes \$255,411 of deferred compensation under the terms of a post-employment consulting arrangement with us under his previous employment agreement. See 2008 Non-qualified Deferred Compensation Plans below for further information.

All Other Compensation

The following table describes each component of the All Other Compensation column in the Summary Compensation Table for 2008.