

# Lancashire Group: UK tax strategy

## Year ended 31 December 2017

This document outlines the UK tax strategy of Lancashire Holdings Limited (“LHL”) and its subsidiaries<sup>1</sup> (collectively referred to as “Lancashire”) in accordance with the requirements of the Finance Act 2016.

### Company background

LHL was incorporated in Bermuda in 2005 and the Group began underwriting in Bermuda through its wholly owned subsidiary company, Lancashire Insurance Company Limited (“LICL”) in October 2005, entering the London insurance market in 2006. During 2011, we announced our intention to move LHL to UK tax residency with effect from 1 January 2012. The group has built up a significant presence in Bermuda and the move to UK tax residency led to a substantial growth in our UK presence and economic activity, increasing our total tax contribution. As a UK headquartered business, we are committed to operating in a prudent and responsible manner alongside stakeholders which include the UK Financial Conduct Authority (FCA), the Prudential Regulatory Authority (PRA), Lloyd’s of London and HM Revenue & Customs (HMRC). Our business is also subject to stringent capital requirements and oversight by rating agencies and LICL is regulated by the Bermuda Monetary Authority.

During 2013, Lancashire acquired the Cathedral group, a specialty insurer operating exclusively in the Lloyd’s insurance market. Cathedral is integrated with the wider Lancashire group under three common strategic aims:

- Underwriting comes first: we write risks in the location that makes sense at the time, where the demand is, at a price based on underwriting expertise. Tax rate and tax jurisdiction do not drive our underwriting decisions
- Effectively balance risk and return: We make sure we are efficiently structured to access the right business and produce the best returns we can for our shareholders but have no appetite to fall foul of any regulation, including tax
- Operate nimbly through the cycle: we monitor tax developments in tax legislation and sentiment around the world and assess the impacts on the Group

Our approach to tax is aligned to our business strategy where applicable; as part of our business we aim to achieve compliance with all tax obligations. Our operations are driven by commercial purpose with a view to enhancing shareholder return while maintaining a low tolerance towards all aspects of tax risk.

### Corporate responsibility

At Lancashire we recognise that our responsibility as a company and as individuals extends beyond our shareholders and clients. We strive to be a good employer, a good corporate citizen and a responsible preserver of resources. At the same time, it remains a core part of our business to operate in line with strategic aims that enable us to meet our goal of providing a competitive and sustainable return to shareholders.

We operate in an industry that is subject to regulatory supervision and oversight in order to protect our policyholders. The insurance market seeks to provide support to those afflicted by the unexpected and we seize opportunities to use our talents and resources to support the community through the Lancashire Foundation, which makes financial contributions and provides support to a number of good causes.

<sup>1</sup> The subsidiaries covered by this tax strategy are Lancashire Insurance Company Limited (Bermuda), Lancashire Insurance Marketing Services Limited, Lancashire Insurance Services Limited, Lancashire Insurance Holdings (UK) Limited, Lancashire Insurance Company (UK) Limited, Kinesis Capital Management Limited (Bermuda), KCM Marketing Services Limited, Cathedral Capital Limited, Cathedral Capital Holdings Limited, Cathedral Capital (1998) Limited, Cathedral Capital (1999) Limited, Cathedral Underwriting Limited and Cathedral Capital Services Limited.

Corporate responsibility is an integral part of Lancashire's approach to its business; we operate our business based on doing the right thing which includes our attitude to tax risk and responsibilities.

### **Our approach to risk management and governance arrangements in relation to taxation**

Our insurance business is regulated in the UK under the EU's Solvency II regime and therefore it is imperative that tax risk management is embedded as part of our Enterprise Risk Management (ERM) and Own Risk and Solvency Assessment (ORSA) procedures, as well as the Senior Insurance Manager Regime requirements.

We seek to adopt best corporate governance practice. Our listing on the London Stock Exchange requires us to measure corporate governance compliance against the requirements of the UK Corporate Governance Code as published by the UK Financial Reporting Council (FRC) and explain areas of material non-compliance.

We consider it crucial that the business is at the forefront of identifying, managing and mitigating current and future tax risks. From an operational perspective, our robust governance structure ensures that the necessary Board and Committees are in place to exercise effective oversight as it relates to taxation. Tax risk is considered as part of our risk register, which is assessed and updated on a regular basis. In addition, our business is subject to strict implementation of operating guidelines to ensure that the roles and responsibilities of our people are appropriately aligned. We are proactive in seeking certainty, where appropriate, from external advisors or HMRC in order to effectively manage our tax risk.

Internal controls and procedures ensure that our Senior Accounting Officers are equipped to certify to HMRC that we have appropriate tax accounting arrangements in place. All tax returns and other submissions to HMRC are subject to rigorous review and validation. This may involve the use of independent external advisors, where appropriate, which enables us to satisfy our tax compliance requirements.

We may also use independent external advisors to provide supplementary specialist support such as in relation to transfer pricing, indirect tax and employment tax matters which may impact our tax filing obligations. We seek to use HMRC approved arrangements, where appropriate, to achieve certainty and facilitate tax risk management.

It is critical that our procedures are sufficiently documented and we have adequate succession plans in place to safeguard against unforeseen changes. We ensure that training and support is provided to ensure that we are able to proactively identify and manage new and emerging risks. We engage and work with HMRC to the extent there is uncertainty in relation to tax risk.

### **Tax risk appetite**

Our strategic aims put underwriting at the forefront of our business whilst achieving the right balance between risk and return to ensure that we can react nimbly to a changing insurance market. In the area of taxation we strive to maintain a low risk profile and we have a low tolerance towards all aspects of tax risk. Any transactions that we undertake are driven by commercial purpose in line with our strategic objectives. We ensure that intercompany arrangements are carried out at arm's length in line with expectations between independent third parties.

We have historically been categorised by HMRC as a non-low risk business due to the nature of our international business and the complexity of the insurance industry within which we operate. We, however, strive to maintain a low tax risk profile wherever possible and our governance structure provides us with the necessary framework to escalate any tax matters where required.

We discuss any uncertainty relating to current and future tax risks, or interpretation of the law with our independent external advisors. We may seek assurance from such external advisors and through regular meetings with HMRC to support us in maintaining our low tax risk appetite.

### **Our approach towards our dealings with HMRC**

We are committed to engaging and working with HMRC on an open, honest and transparent basis in a timely manner through our Customer Relationship Manager. We consider our internal controls and procedures to be

adequate to support us in fulfilling all tax obligations. However, in the unlikely event that we identify any issue in our tax compliance obligations, then we would voluntarily disclose this to HMRC on a timely basis. It is critical that our approach to taxation is based on doing the right thing and we are confident that Lancashire pays the right amount of tax.