



# Investor Day 2023

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#### **NOTE REGARDING FORWARD-LOOKING STATEMENTS:**

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELLED LOSS SCENARIOS) MADE IN THIS PRESENTATION OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN NATURE INCLUDING, WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS “BELIEVES”, “AIMS”, “ANTICIPATES”, “PLANS”, “PROJECTS”, “FORECASTS”, “GUIDANCE”, “INTENDS”, “EXPECTS”, “ESTIMATES”, “PREDICTS”, “MAY”, “CAN”, “LIKELY”, “WILL”, “SEEKS”, “SHOULD”, OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE GROUP TO BE MATERIALLY DIFFERENT FROM FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. FOR A DESCRIPTION OF SOME OF THESE FACTORS, SEE THE GROUP’S ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2022 AND THE GROUP’S UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDING 30 JUNE 2023. IN ADDITION TO THOSE FACTORS CONTAINED IN THE GROUP’S 2022 ANNUAL REPORT AND ACCOUNTS AND THE GROUP’S UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDING 30 JUNE 2023, ANY FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PRESENTATION MAY BE AFFECTED BY: THE IMPACT OF THE ONGOING CONFLICTS IN UKRAINE AND THE MIDDLE EAST, INCLUDING ANY ESCALATION OR EXPANSION THEREOF, ON THE GROUP’S BUSINESS, RESERVES OR CLIENTS, THE CONTINUED UNCERTAINTY OF THE SITUATION IN RUSSIA, INCLUDING ISSUES RELATING TO POLICY COVERAGE AND THE IMPACT OF GOVERNMENT SANCTIONS, THE IMPACT ON SECURITIES IN OUR INVESTMENT PORTFOLIO AND ON GLOBAL FINANCIAL MARKETS GENERALLY, AS WELL AS ANY GOVERNMENTAL OR REGULATORY CHANGES, ARISING THEREFROM; THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES OR MAY WRITE; THE GROUP’S ABILITY TO SUCCESSFULLY IMPLEMENT ITS BUSINESS STRATEGY DURING ‘SOFT’ AS WELL AS ‘HARD’ MARKETS; THE CONTINUATION OF INCREASED PREMIUM RATES THAT ARE AVAILABLE AT POLICY INCEPTION FOR LINES WITHIN ITS TARGETED BUSINESS; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR RELATED FACTORS; AND CYCLICAL DOWNTURNS OF THE INDUSTRY. ALL FORWARD-LOOKING STATEMENTS IN THIS PRESENTATION OR OTHERWISE SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING (SAVE AS REQUIRED TO COMPLY WITH ANY LEGAL OR REGULATORY OBLIGATIONS INCLUDING THE RULES OF THE LONDON STOCK EXCHANGE) TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT TO REFLECT ANY CHANGES IN THE GROUP’S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE GROUP OR INDIVIDUALS ACTING ON BEHALF OF THE GROUP ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THIS NOTE. PROSPECTIVE INVESTORS SHOULD SPECIFICALLY CONSIDER THE FACTORS IDENTIFIED IN THIS PRESENTATION AND THE REPORT AND ACCOUNTS AND THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS NOTED ABOVE WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER BEFORE MAKING AN INVESTMENT DECISION.

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## Today's agenda

Welcome

Strategic review: Alex Maloney

Capital management: Natalie Kershaw and Jennifer Wilson

Claims and reserving: Steve Yeo and Jamie Grant

Our Lloyd's business: John Spence

Q&A



# Strategic review Alex Maloney, Group CEO

# Capital Management

Natalie Kershaw, Group CFO

Jennifer Wilson, Bermuda CFO and Head of FP&A

## Strategy

- Capital management
- Portfolio diversification

## Capital models

- Required capital in various models
- AM Best

## Three strategic priorities support our goal

### ① Underwriting comes first

#### **Profitable growth**

Exploring opportunities for growth in markets where we believe the right long-term opportunities exist and rigorously monitoring and managing our risk exposures.

### ② Balance risk and return through the cycle

#### **Maximise risk-adjusted returns**

Our speed and agility in the way we manage volatility help us underwrite our core portfolio profitably through the challenges of the cycle, yet seize opportunities when they present themselves.

### ③ Insurance market employer of choice

#### **Positive culture enables sustainability**

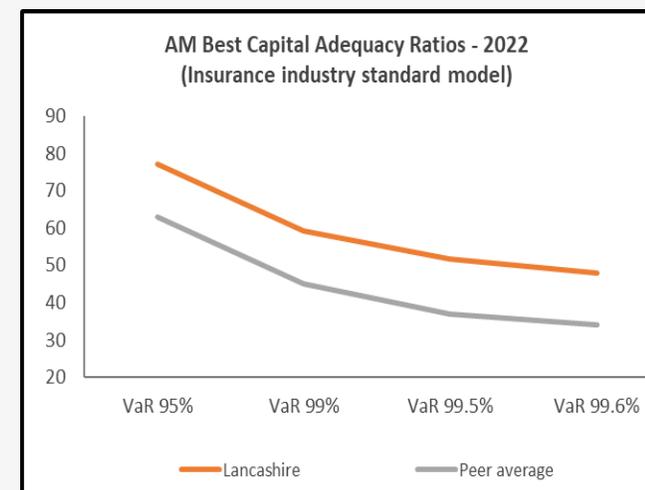
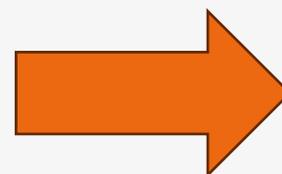
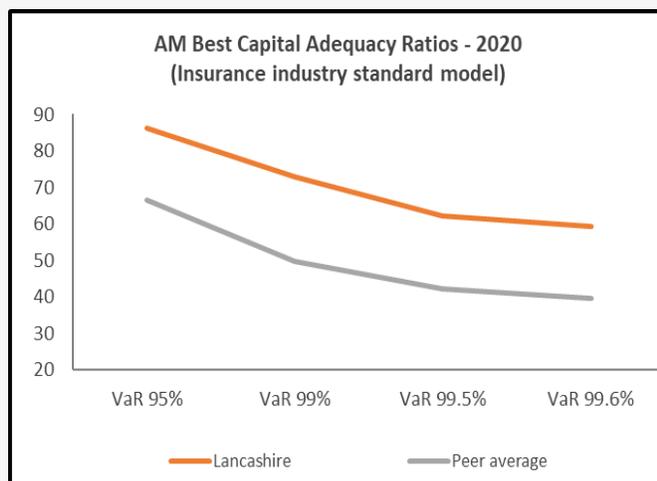
Maintaining our positive culture and the ability to attract and retain the best talent is key for success, coupled with a strong focus on profitability and risk selection.

Our goal is to maximise risk-adjusted returns for our shareholders.

Actively manage capital to support underwriting opportunities	Preserve capital, provide liquidity and maintain a stable earnings stream	Encourage a culture of risk challenge, questioning and understanding
<ul style="list-style-type: none"> <li>Continue to maintain an appropriate capital position so we can withstand a significant cat event.</li> </ul>	<ul style="list-style-type: none"> <li>Prudent reserving approach, risk appetite preference for a confidence level between the 80<sup>th</sup> and 90<sup>th</sup> percentile. 87% at H1 2023.</li> </ul>	<ul style="list-style-type: none"> <li>ERM at the centre of a strong risk culture and governance framework.</li> <li>Fortnightly Risk and Return Committee chaired by CEO with members from across the business monitors and challenges risk assessment to optimize risk-adjusted returns.</li> </ul>
<ul style="list-style-type: none"> <li>Our estimated BSCR ratio at H1 2023 was 312% - excellent regulatory headroom.</li> </ul>	<ul style="list-style-type: none"> <li>Investment portfolio - average credit rating of AA- and duration of 1.6 years at Q3 2023.</li> </ul>	<ul style="list-style-type: none"> <li>Stress and scenario testing embedded in business planning and capital management process.</li> </ul>
<ul style="list-style-type: none"> <li>31 December 2022 - leverage 29% on tangible capital, no further debt issuances contemplated until we have capital of closer to \$2.5bn.</li> </ul>	<ul style="list-style-type: none"> <li>Perform a bi-annual 'Strategic Asset Allocation' with external investment advisors with aim to maintain high credit quality and excess liquidity.</li> </ul>	<ul style="list-style-type: none"> <li>Rating agencies recognition for strong risk culture and risk management framework.</li> </ul>

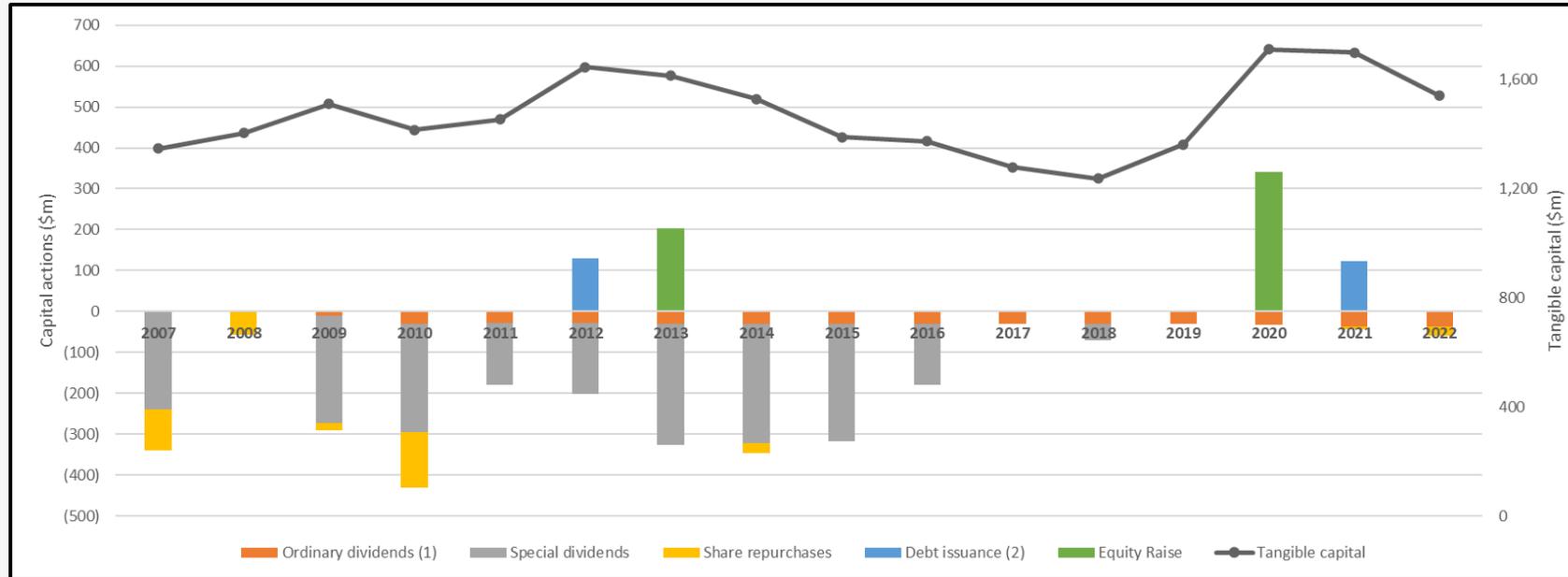
## Maintaining a strong capital position

- We maintain a relatively conservative capital position such that we can withstand a significant catastrophe event and still retain our ratings and regulatory solvency position.
- Our disclosed AM Best capital adequacy ratio is significantly higher than peers given our relatively high exposure to catastrophe losses.
- Diversification strategy over recent years has improved our capital efficiency.



Note: 2022 peer average includes: Arch, Argo, Axis, Beazley, Convex, Everest, Fidelis, Greenlight Re, Hanover, Hiscox, Renaissance Re and Sirius Point. In 2020 Convex was not included.

# Capital management: Balance risk and return through the cycle

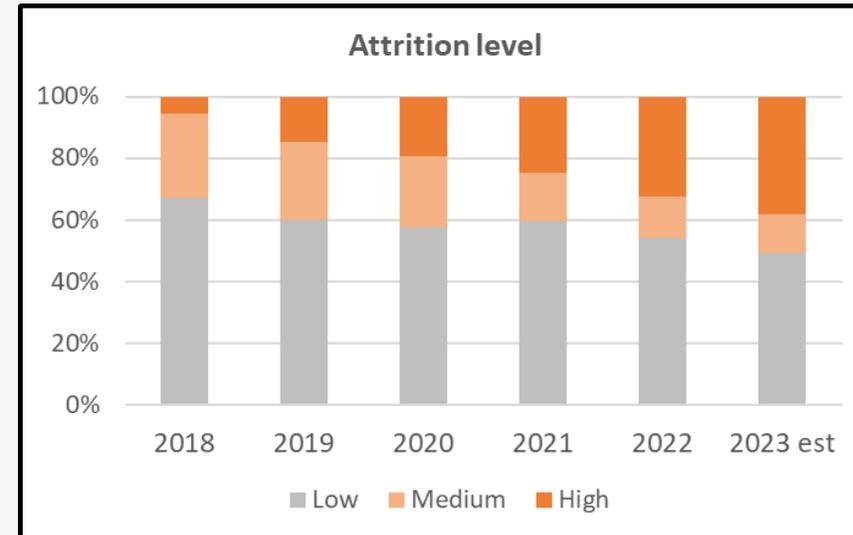
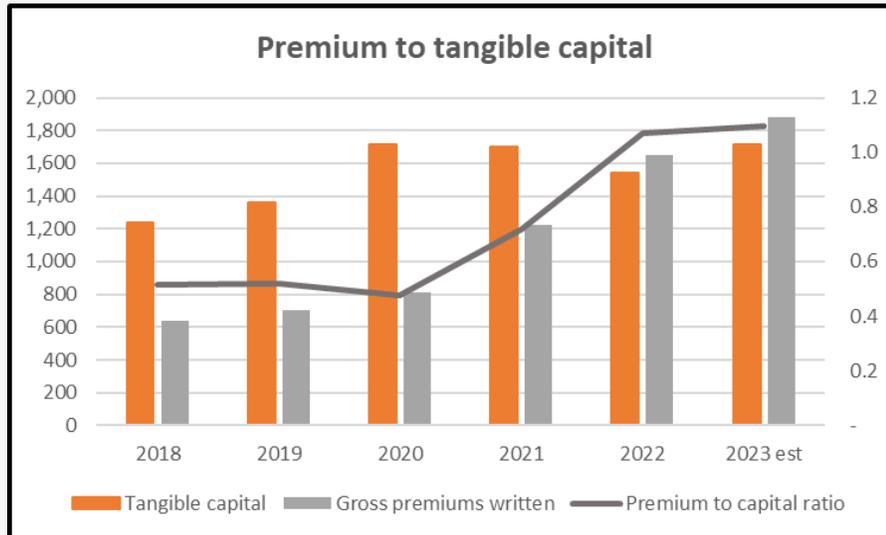


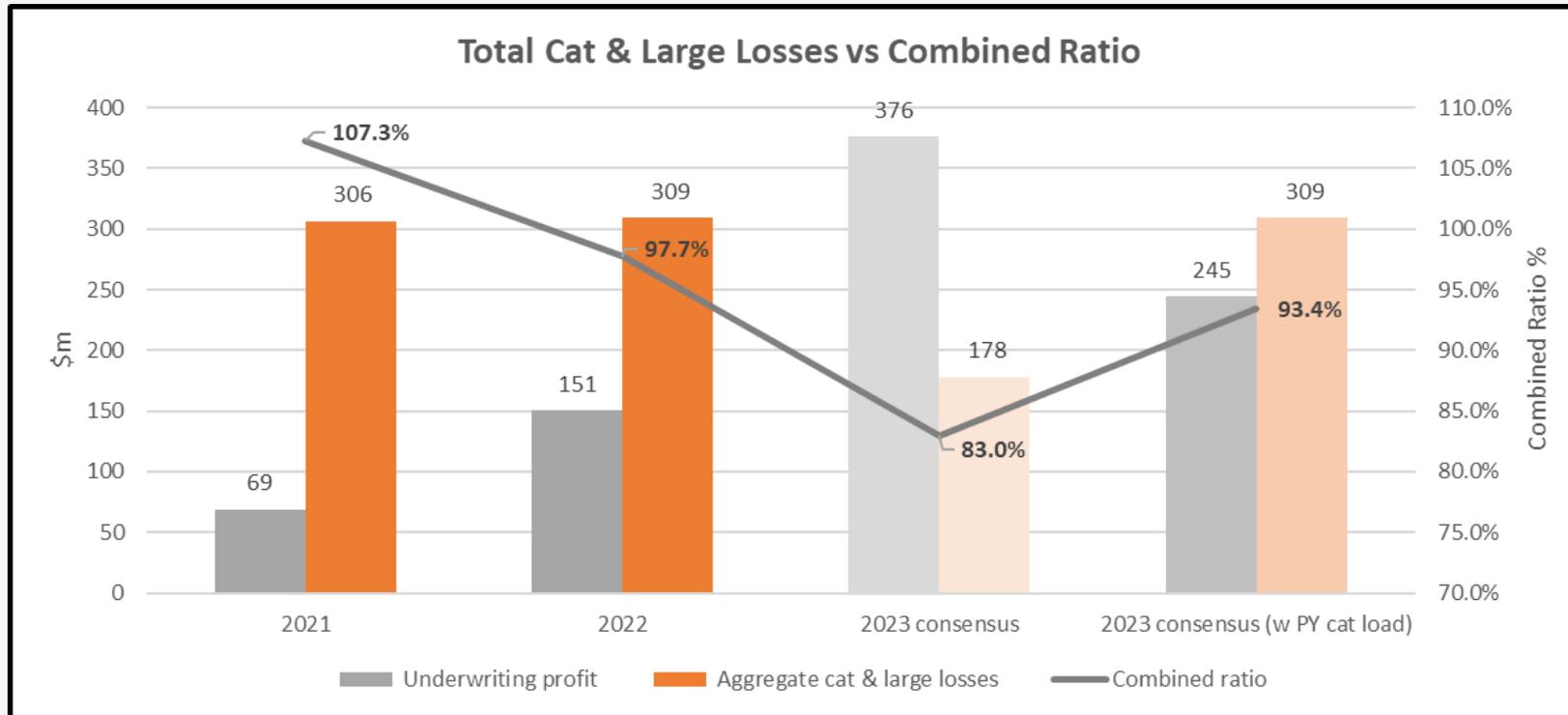
- Active capital management is at the heart of how we run the business. We have returned nearly \$3bn since inception <sup>(3)</sup> and raised about \$550m.
- We monitor capital and headroom against internal, rating agency and regulatory requirements.
- The past five years have been challenging from a loss perspective but we have not eroded capital.

(1) Dividends included in the financial statement year in which they were recorded

(2) 2021 debt issuance net of the Q2 debt redemption

(3) Excludes \$169m capital returns announced on 9 November 2023





Informal collaboration	Formal process
<ul style="list-style-type: none"> <li>• Small size = no silos and nimble decision making.</li> </ul>	<ul style="list-style-type: none"> <li>• Formal quarterly Board reporting.</li> </ul>
<p>2022 – Hurricane Ian.</p> <ul style="list-style-type: none"> <li>• Daily interaction to firm up 1 January opportunities and outwards reinsurance.</li> <li>• Real time decisions about additional inwards deals and outwards reinsurance purchases.</li> </ul>	<p>Annual scenario testing.</p> <ul style="list-style-type: none"> <li>• Recurring base scenarios (e.g. breakeven point for AM Best headroom).</li> <li>• Current hot topics (e.g. climate change, investment shocks, terrorist attacks).</li> <li>• Stress tests for various attritional/large/cat loss loadings and ranges of investment returns.</li> </ul>

Each of the rating agency and regulatory models has their own proprietary calculation for required capital but the general building blocks are:

### **Underwriting risk**

Catastrophe risk charges

Premium risk charges

Loss reserve risk charges

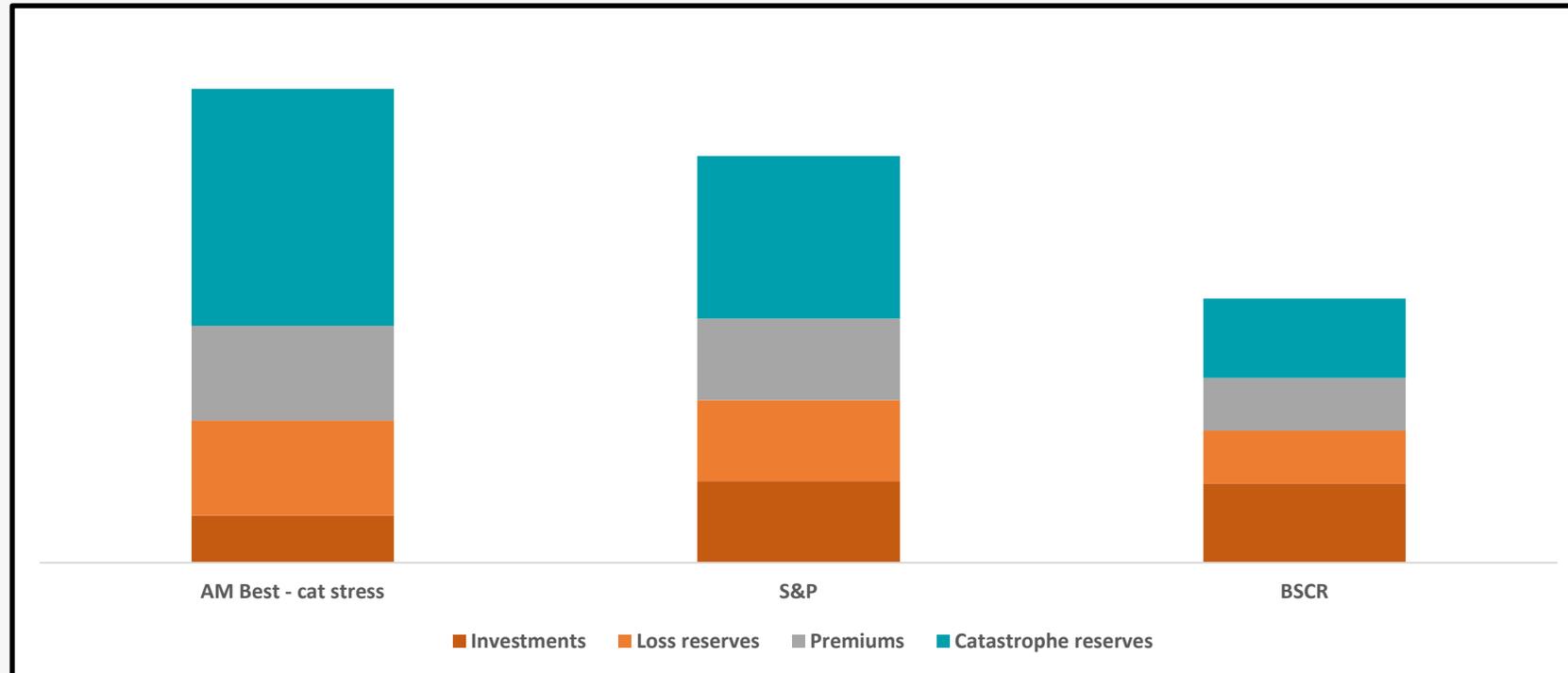
### **Asset risk**

Investment risk charges

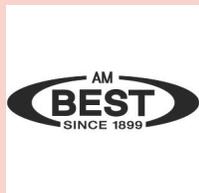
Credit risk charges

These risk charges are added together and then offset by diversification.

# Indicative required capital splits (post-diversification)



Catastrophe risk is generally measured by PML (‘Probable Maximum Loss’) and is the most significant driver of required capital. Each model utilises a different PML measure but in all models the main driver is U.S. Wind exposure.



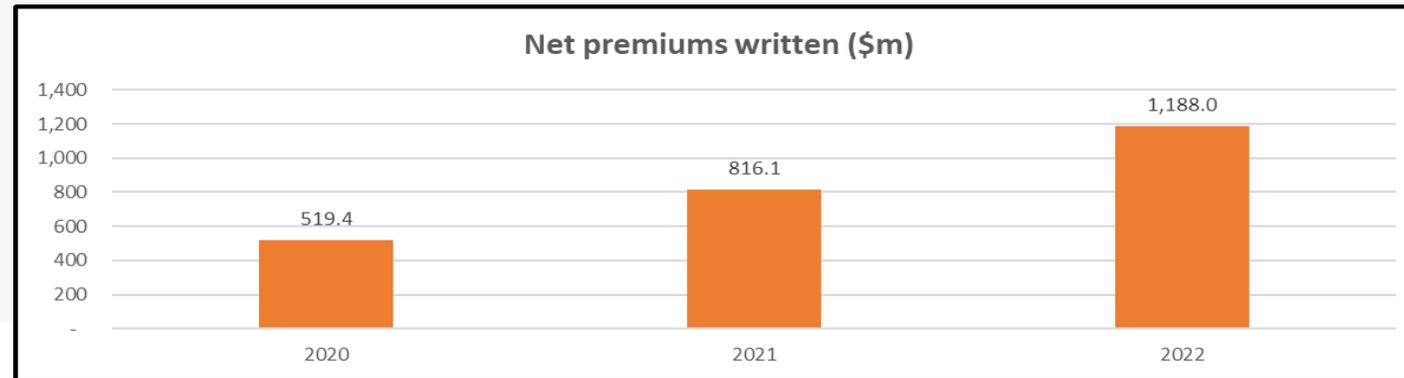
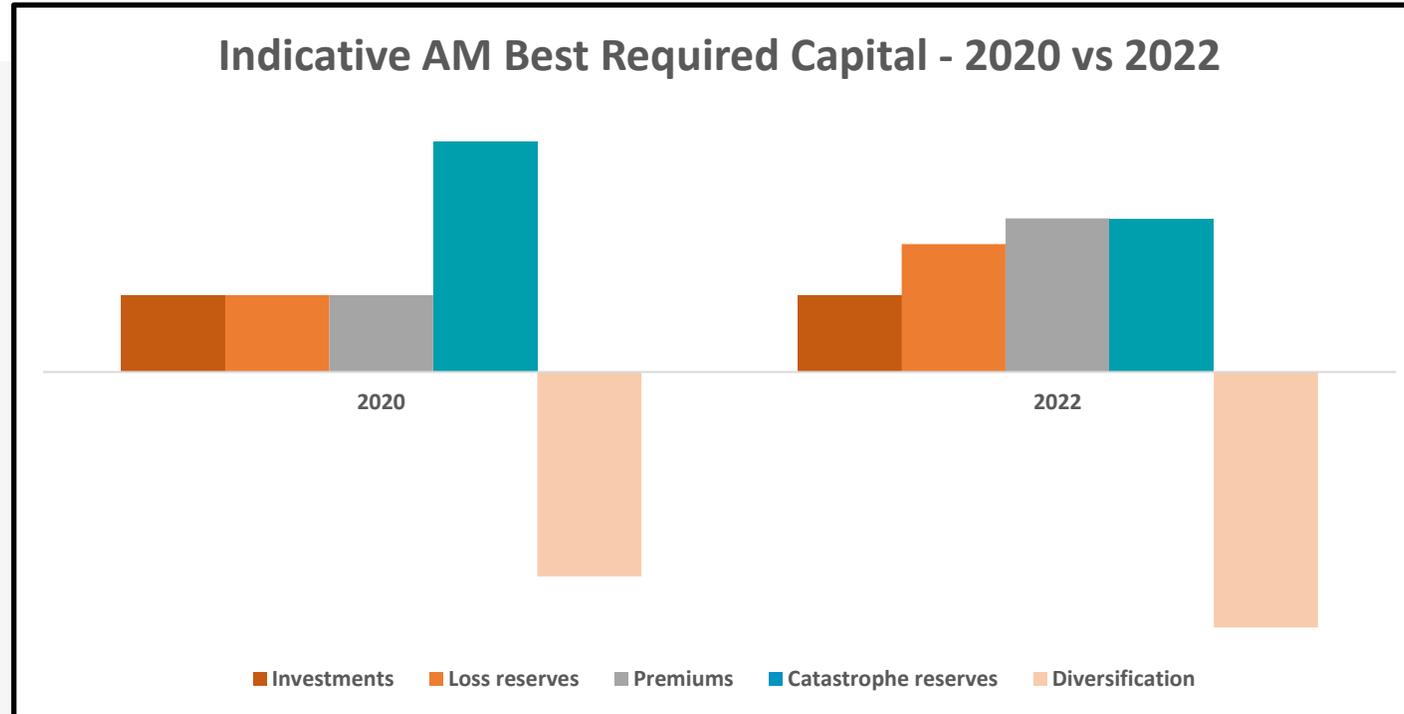
The AM Best cat stress model reduces tangible capital by our 1 in 100 worldwide all perils occurrence PML. The model also applies risk charges to the 1 in 250 worldwide occurrence PML and applies diversification to it.

The logo for S&P Global, featuring the text 'S&P Global' in a bold, red font.

The S&P model applies risk charges to the 1 in 250 worldwide all perils aggregate PML net of 70% of our cat premiums.

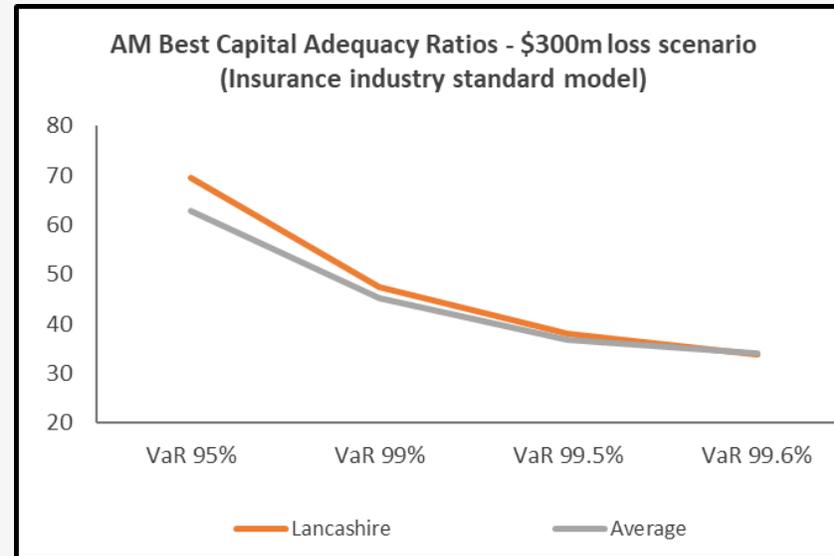


The BSCR model is calibrated at a 99% TVaR level over a one-year horizon.



Let's consider the impact of an additional net loss of \$300m (approximately equal to our 1 in 100 Gulf Wind PML) on our 2022 results:

- Our BMA BSCR ratio would drop from 308% down to approximately 225%, not inconsistent with peers' 2022 reported ratios
- In the AM Best standard model this reduction in profit would bring our capital position in line with our peers' position before this additional loss scenario:



**Conclusion:** We could absorb this loss and continue to write business.

# Lancashire versus peer ratings

Criteria	Lancashire	Arch	Argo	Axis	Beazley	Convex	Everest	Fidelis	Greenlight Re	Hanover	Hiscox	Ren Re	Sirius Point
Best's Financial Strength Rating	A	A+	A-	A	A	A	A+	A	A-	A	A	A+	A-
Outlook	Stable	Stable	Under review	Stable	Stable	Stable	Stable	Negative	Stable	Stable	Stable	Stable	Stable
Balance Sheet strength	Strongest	Strongest	Very Strong	Strongest	Very Strong	Very Strong	Strongest	Very Strong	Very Strong	Strongest	Very Strong	Strongest	Very Strong
Operating performance	Strong	Strong	Adequate	Adequate	Strong	Adequate	Adequate	Adequate	Marginal	Adequate	Strong	Adequate	Adequate
Business profile	Neutral	Favorable	Neutral	Favorable	Neutral	Neutral	Very Favorable	Neutral	Neutral	Favorable	Neutral	Favorable	Neutral
Enterprise risk management	Appropriate	Appropriate	Marginal	Appropriate	Appropriate	Appropriate	Appropriate	Appropriate	Appropriate	Appropriate	Appropriate	Very Strong	Appropriate
<b>Confidence level BCAR scores</b>													
VaR 95	77.1	65.2	53.2	60.6	67.0	68.7	59.4	74.9	60.7	61.1	66.0	59.1	59.4
VaR 99	59.3	43.8	31.1	38.8	51.5	54.6	41.5	63.4	47.8	43.0	51.2	30.2	44.3
VaR 99.5	51.7	32.9	22.1	30.3	45.2	48.9	32.4	57.8	42.2	34.4	44.2	13.6	38.3
VaR 99.6	48.0	30.5	19.1	27.9	43.2	47.1	29.7	56.1	40.3	29.6	42.2	8.0	36.3

Sources: Best's Credit Reports available as of September 2023 for AM Best rated peer companies.

# Claims and reserving



Steve Yeo, Group Head of Claims  
Jamie Grant, Head of Actuarial Reporting &  
LUK Chief Actuary

The role of the claims function

Reserving philosophy and process

# What is the role of the claims function?



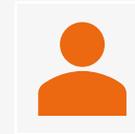
Pay valid  
claims quickly



Manage the  
market  
response to loss



Transparent and  
expeditious  
determination  
of coverage



Triage standard  
v complex claims



But what  
complexities  
do we  
encounter?

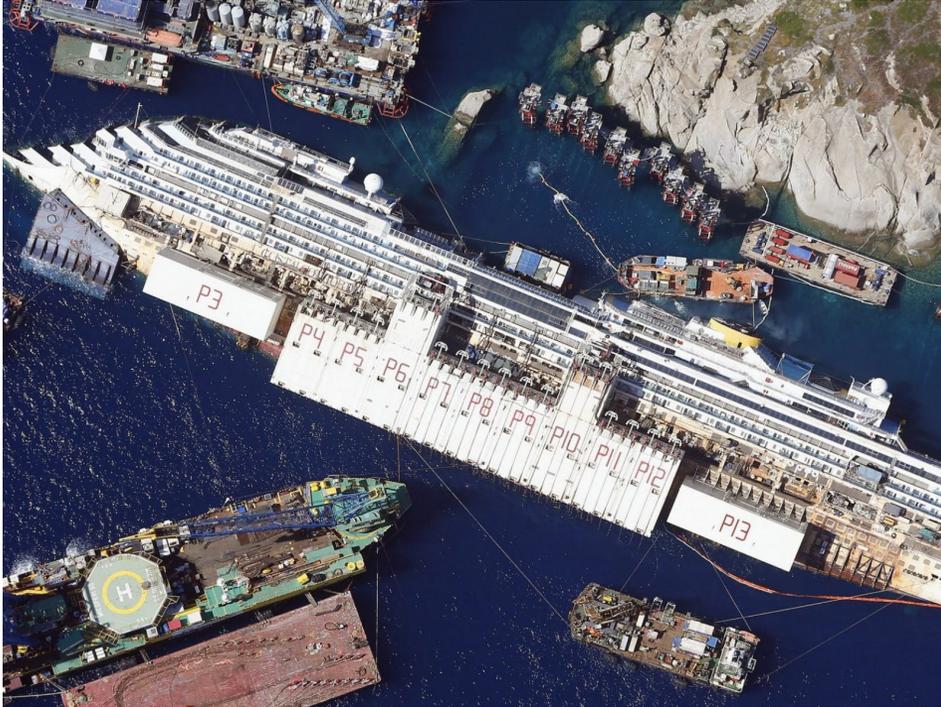
## Deepwater Horizon - April 20, 2010

- Deepwater Horizon was a Deepwater semi-submersible offshore drilling rig, owned by Transocean and leased to BP
- BP, Anadarko Petroleum and Moex Offshore were co-venturers in the Macondo Prospect (MC252). BP were the 'Operator'
- MC252 was located 41 miles off the Coast of Louisiana in 5,000ft of water (one mile)
- During operations to displace the marine riser an uncontrolled flow of pressure caused a blowout onto the rig, which subsequently ignited
- 126 people on board. 11 workers fatally injured
- Largest marine oil spill in history



### The issues

- Live casualty
- Search, rescue and salvage operation
- Who is responsible for what?
- How do we triage priority?
- Outside influence
- Unforeseen events
- How do we assess the ultimate outcome?



## Costa Concordia – January 13, 2012

- Costa Concordia was a Costa Cruise vessel owned by Carnival Corporation
- She was carrying around 3,200 passengers and 1,000 crew between Civitavecchia and Savona
- Captain Schettino ordered a deviation of the planned route to perform a 'sail-by' at Isola del Giglio
- She sailed too close to the Island and struck a rock formation causing her to list and partially sink
- She came to rest on an underwater ledge
- 33 fatalities

### The issues

- Live casualty
- Search, rescue and salvage operation
- Who is responsible for what?
- Causation and coverage

- Outside influence
- Unforeseen events
- How do we assess the ultimate outcome?



## Covid-19 pandemic

- Coronavirus spread globally
- Governments across the globe take action to prevent spread
- Travel curtailed
- Businesses closed
- Public events cancelled
- Wide-ranging claims brought, seeking coverage for loss resulting from such curtailments

### The issues

- Is there loss?
- When did any perceived loss occur?
- How do we assess exposure in these circumstances?
- What are the implications of governmental and judicial intervention?
- Unforeseen events?
- How do we assess the ultimate outcome?



## Hurricane Ian – September 28, 2022

- Category 4 hurricane made landfall in Southwestern Florida
- Catastrophic storm surge and significant wind damage to central Florida and Carolinas
- Current PCS estimate \$48.4bn (Initial PCS estimate \$40bn)
- Inflationary considerations

### The issues

- Pre-loss exposure assessment
- What does the model say?
- Catastrophe response
- Crystallisation of loss
- How do we assess the ultimate outcome?

## Hurricane Ian makes landfall on Florida's west coast as Cat 4 storm

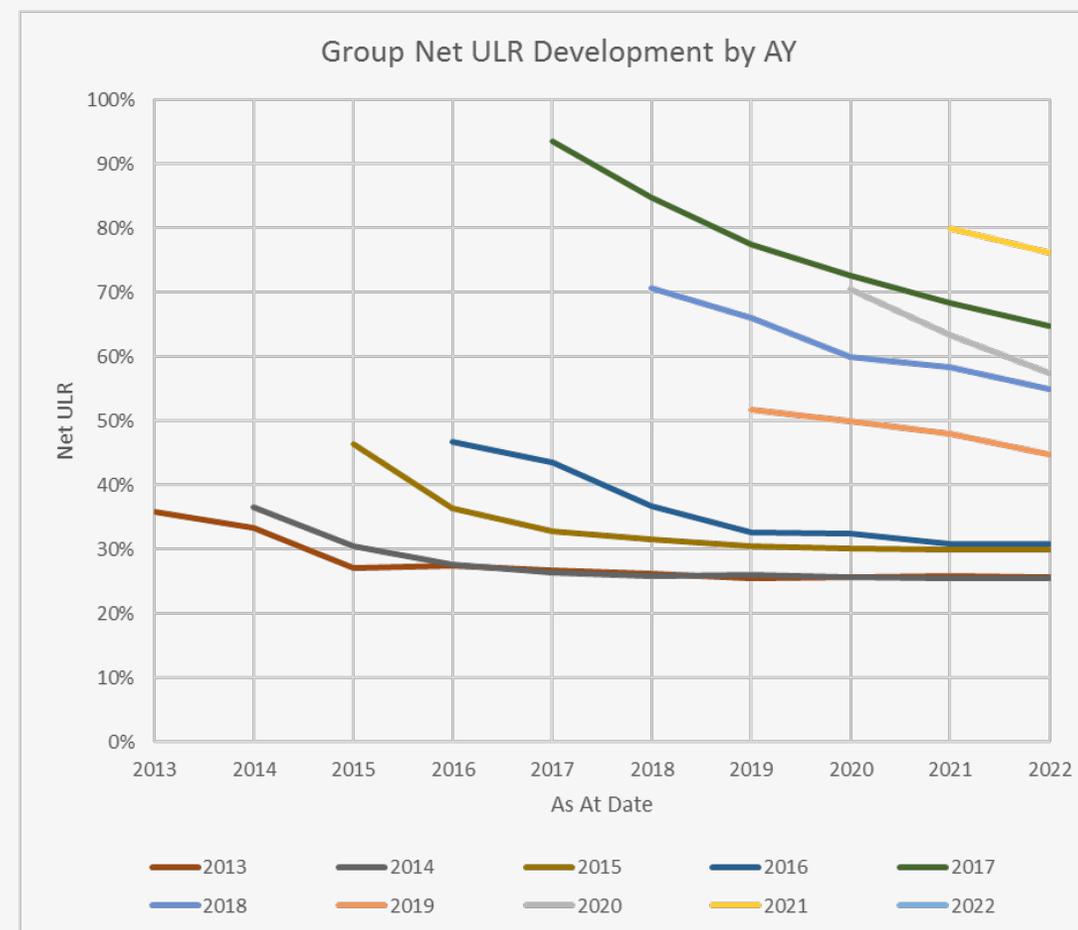
Insurance Insider team 28 September 2022



Hurricane Ian has made landfall on Florida's western coastline as a Category 4 storm with wind speeds of 150 mph, decelerating from 155 mph earlier this morning.

***“We have no appetite to set our reserves below the bottom end of the range of reasonable estimates, as determined by internal and external actuaries.”***

- Demonstrated history of a strong reserving base and P-Y releases
- Strong reserve governance framework
  - Owned by actuarial
  - Reserve Committees for all insurance subsidiaries
  - Common attendees at each for consistency
  - Representation across Claims, Finance and Actuarial
  - Joined up across entities and departments for a single view
  - Challenge at Audit Committees and Boards
  - Subject to external actuarial review twice annually and audit annually
- Supported by our new Confidence Level disclosure under IFRS 17



Validated through external  
actuarial review twice annually

### Attritional Claims Reserves

- Standard actuarial techniques used to inform actuarial best estimate assumptions
- Uplifts for management margin
- Reviewed regularly alongside emerging experience
- Supported by external assumptions if required

### Considerations

- Claims inflation
- Rate change / changes in book
- Actual vs Expected experience
- Sufficiency of internal data
- Risk appetite on new/growing lines

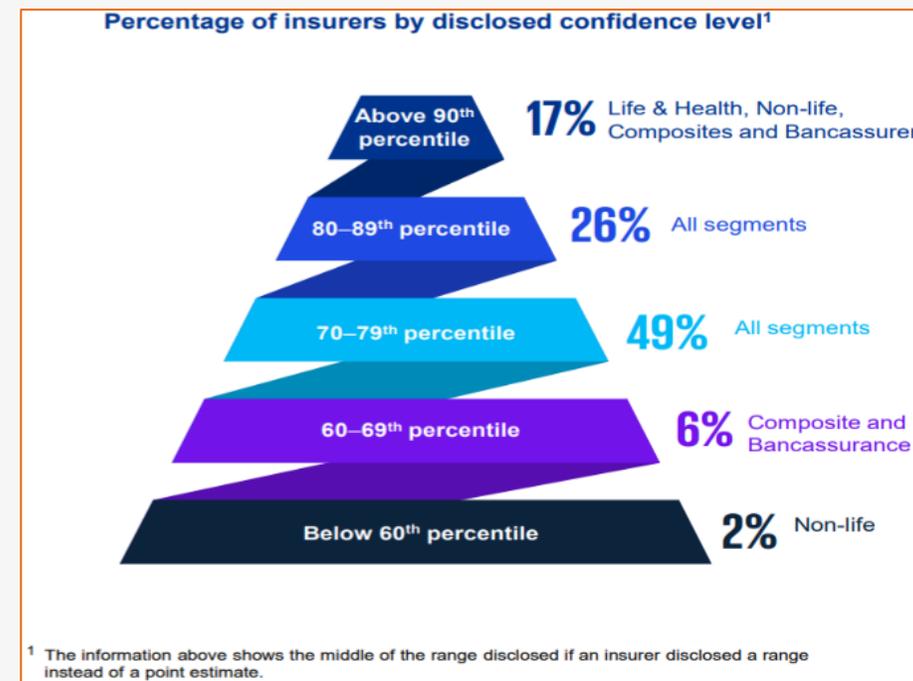
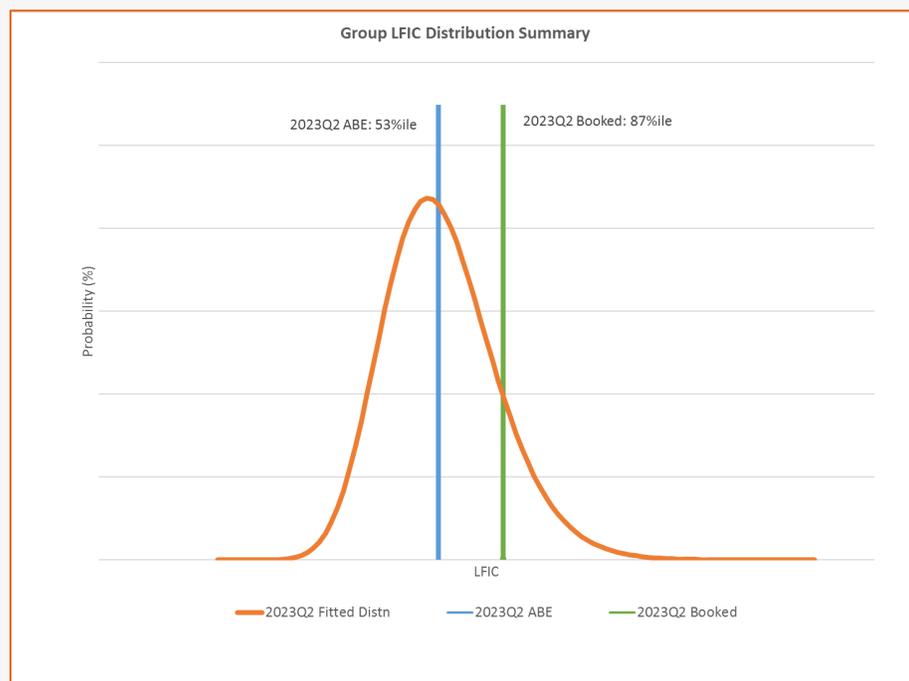
### Large Claims (Elemental and non-Elemental) Reserves

- Coordination between underwriters, claims and actuarial
- Top-down share of market loss estimates cross checked to potentially exposed policies until more detailed exposure estimates from cedents are known
- Applicable outwards reinsurance

### Considerations

- Appropriateness of adjuster/client estimates
- Claims inflation
- Nature of loss
- Uncertainty (policy limits etc.)
- Clash

- In any period, the level of margin (prudence) in the reserves is determined by management, based on the prevailing uncertainty at the time and the Group's reserve risk appetite.
- The margin directly informs the undiscounted risk adjustment under IFRS 17.
- At each reporting period, our view of the confidence level corresponding to the risk adjusted cashflows is disclosed.
- We generally expect the Group confidence level to fall in the 80-90 percentile range (assuming no change in risk appetite).



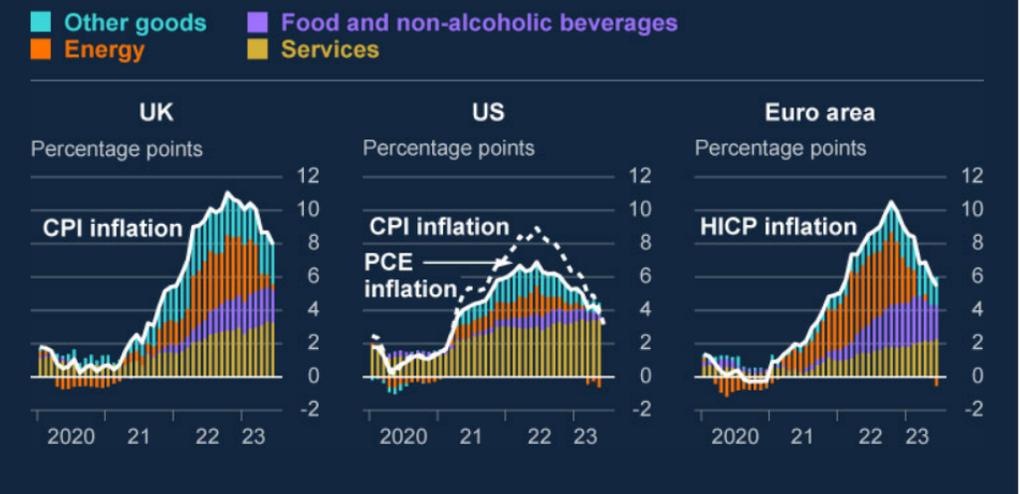
# Claims inflation for the industry

- During 2022, inflation across the U.S. and Europe reached its highest level in around 40 years, continuing into 2023.
- Whilst this has generally been positive from a premium perspective subsequently, there is clearly a risk that reserves underestimate the true levels of inflation and their impact on claims until settlement.
- **Pre-loss (i.e. Incurred but not reported (IBNR) provisions)**
  - Traditional actuarial techniques are based on historical experience which may no longer be relevant
  - Especially where business was priced and written prior to inflationary spikes
  - Cross-functional review undertaken to assess adequacy of reserving assumptions, in particular:
    - Quantify excess inflation (above that which was priced in) by class of business
    - Consideration of:
      - differing types of inflation (materials, court awards, social trends etc.) as they impact each class
      - projected length of heightened inflationary environment
  - Art not a science! Under continual review.
- **Post-loss (Case Reserving)**
  - Post-loss response is reactive, so desirable to have up-to-date values at risk
  - Repair estimates do reflect materials and labour at inflationary rate
  - Adjustment team will assess repair costs with inflationary trends
  - Contingency may be added to reserves to allow for additional unforeseen delay / cost
  - Inclusion of terms and conditions which limit the impact of commodity price / under insurance

## Bank of England Monetary Policy Committee Report (August 2023)

**Chart 2.2: Headline inflation has been falling but remains above central banks' targets in the UK, US and euro area**

Contributions to annual consumer price inflation <sup>(a)</sup>



Sources: Eurostat, ONS, Refinitiv Eikon from LSEG, US Bureau of Economic Analysis, US Bureau of Labor Statistics and Bank calculations.

(a) Data are not seasonally adjusted. Energy includes fuel and household energy bills. Other goods is the difference between overall inflation and the other contributions identified on the chart, and therefore includes alcohol and tobacco. The latest data are May 2023 outturns for US PCE inflation and the associated contributions, and June 2023 outturns for all other series.



Our Lloyd's business  
John Spence, CEO Lancashire Syndicates

How do we manage our Lloyd's platform?

The advantages of Lloyd's

How we are tracking against expectations

The future opportunities for Lancashire

The strategy of our syndicates is a good example of the Group strategy in practice:



## LLOYD'S

- 77 syndicates
- 3,400+ coverholders
- 380+ brokers
- 200+ lines of business
- 50+ leading insurance companies
- £46.7bn gross written premiums (2022)



### Licensing

- Licensed in over 70 territories.
- Can accept risks from over 200 countries and territories in accordance with local laws and regulation.



### Nature / complexity of business

- Some business only comes to Lloyd's.



### Client access

- Some clients prefer Lloyd's paper.



### Talent access

- Some underwriters prefer Lloyd's.



### Highly rated

- Lloyd's is A+ rated by S&P and A rated by AM Best.

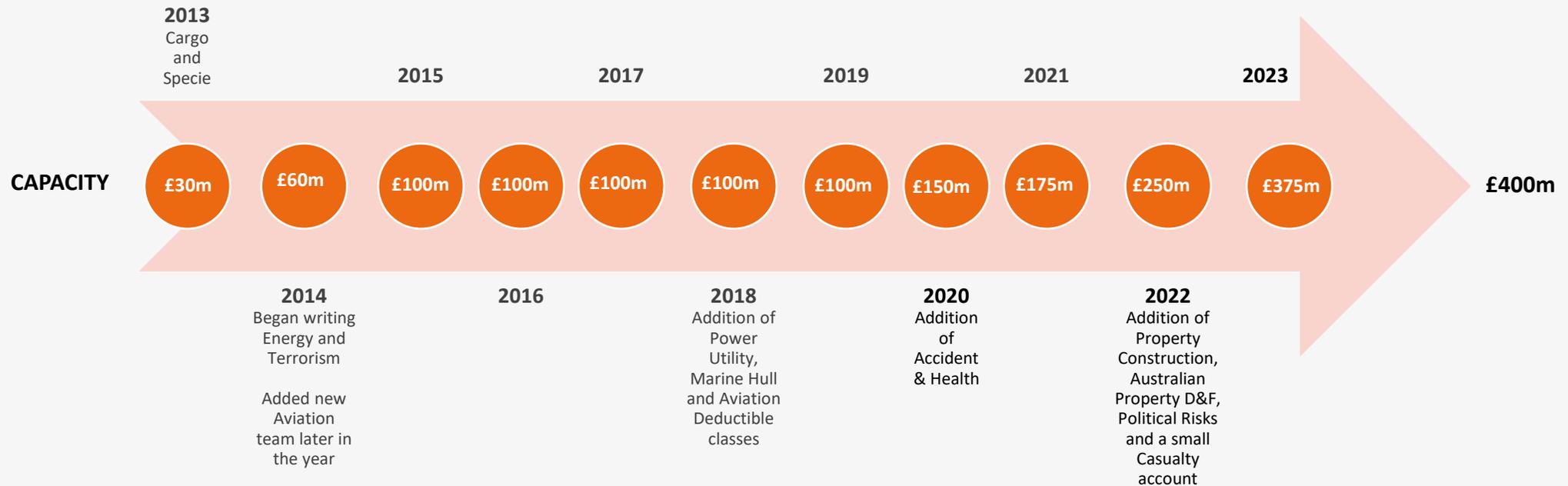


### Lloyd's Europe

- Lloyd's Europe as platform to service business impacted by Brexit.

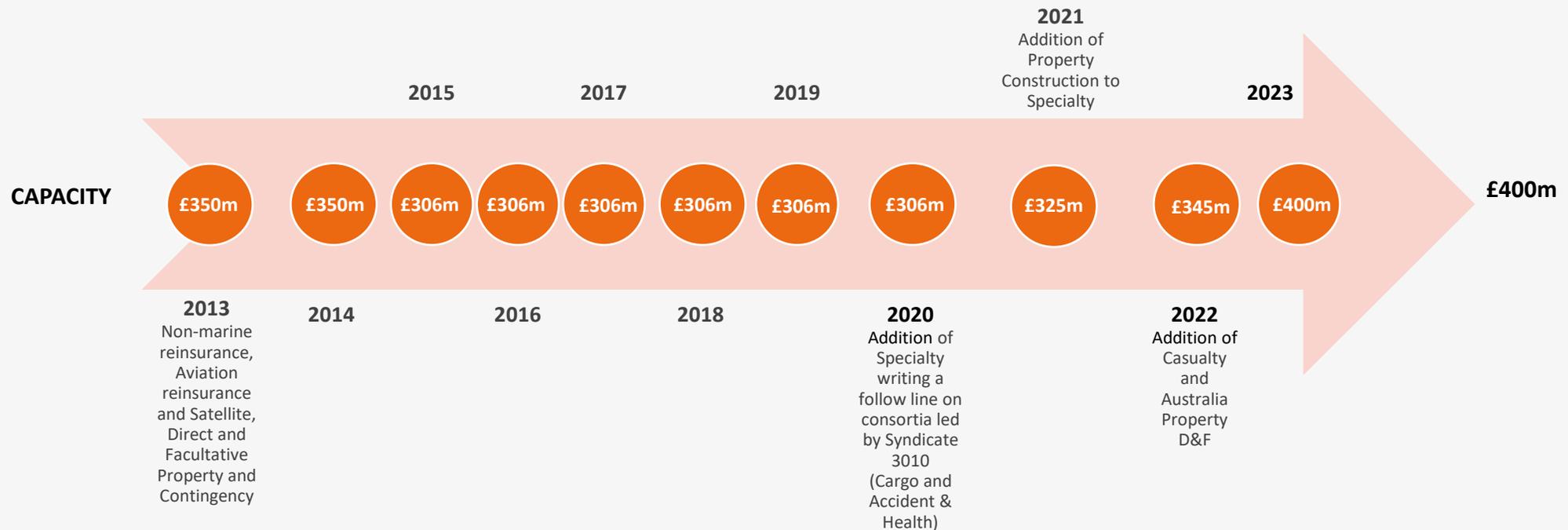
# What did we do at Syndicate 3010?

Lancashire acquired the Cathedral group of companies in November 2013, including Cathedral Underwriting Limited (CUL) the Managing Agent of S3010 and S2010.

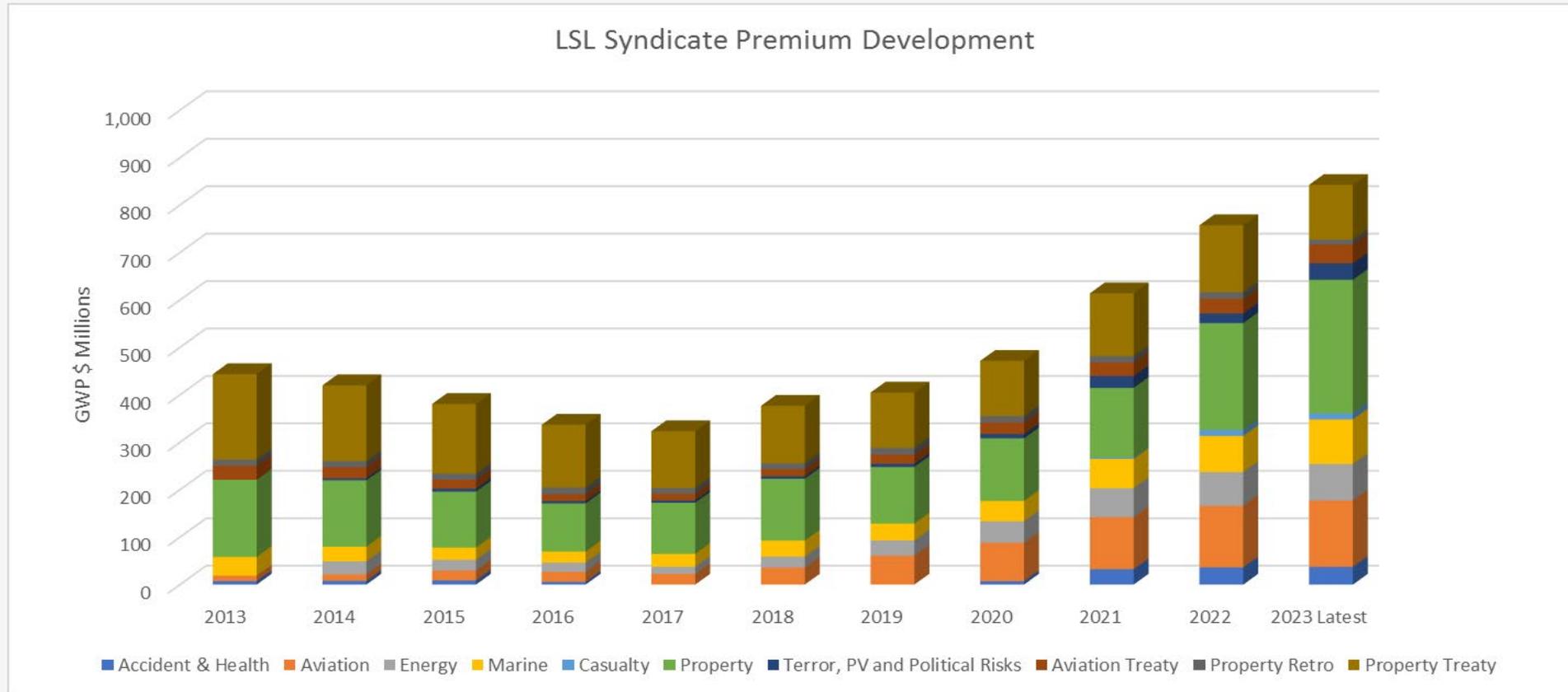


# What did we do at Syndicate 2010?

Lancashire acquired the Cathedral group of companies in November 2013, including Cathedral Underwriting Limited (CUL) the Managing Agent of S3010 and S2010.



# A diversified earnings stream



## Performance versus Lloyd's notional market benchmarks

Syndicate	2019	2020	2021	2022	2023 YTD
3010					
2010					

	Top quartile
	Second quartile
	Third quartile
	Fourth quartile

Source: Lloyd's

# Lloyd's reopens its historic Underwriting Room

21 Sep 2023



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