A strategic approach to risk, capital and returns

Peter Clarke
Non-Executive Chairman

The Board pays particular attention to the Group's purpose of delivering insurance solutions for our clients and managing our risk and capital resources across the insurance cycle. We aim to generate meaningful returns for our investors whilst fostering a positive, sustainable and socially beneficial business and culture.

How did the business perform during 2019?

Lancashire has generated a strong return on equity of 14.1% for 2019 and an impressive combined ratio of 80.9% which, in view of the challenge of another year impacted by catastrophe and risk losses, are a tribute to the Group's underwriting and risk management expertise.

How does the Board expect strategy to develop in 2020?

The Board regularly monitors business performance to ensure that we maintain Lancashire's record of nimble risk monitoring and capital management. This has meant that over several recent years the Board has returned some of our capital to shareholders in circumstances where it has not been required to meet the risk capital requirements of our business. As Alex notes in his introductory comments (see page 12), after many years of a downward pricing trend across those property catastrophe and specialty classes in which we underwrite, there is currently an expectation of an improved pricing environment during 2020, which may afford the Group the opportunity to assume more underwriting risk.

How does the Board view the capital requirements of the business?

The Board regularly considers the balance of risk and return when setting our capital levels, using capital for underwriting when the opportunity presents itself and returning capital to shareholders when it is not needed. As we enter 2020, we believe that our capital resources are appropriate for the current market opportunity, but the Board will continue to adopt a flexible approach to capital management.

An important tool within Lancashire's active capital management strategy is the flexibility afforded to us by shareholders during the last eight years to issue up to 15% of Lancashire's shares on a non pre-emptive basis. The best opportunities in the insurance and reinsurance sectors typically arise following major loss events, and the flexibility to issue shares and raise capital quickly is a central pillar of our business strategy and will help the Group maximise underwriting opportunities for the business. Once again, the Group is seeking shareholder support for resolutions at the 2020 AGM, allowing this capital management flexibility, and I would encourage all shareholders to vote in favour.

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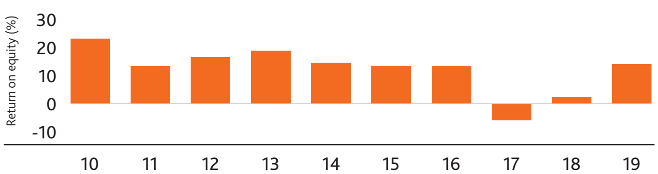
Return on equity



How has the Board developed its dividend strategy?

Our dividend and capital management strategy has not changed and in view of the anticipation of an improving underwriting environment the Board has decided not to declare a special dividend in respect of the 2019 financial year. In addition, for the first time, we propose to make our final ordinary dividend subject to a shareholder vote of approval at the April 2020 AGM which will be held in Bermuda, with a live shareholder video link from our London office. Details are set out in the Notice of the AGM.

Assuming such shareholder approval, the aggregate of all dividends for the 2019 year will amount to $0.15 per common share. Lancashire's nimble capital management and dividend strategy is well understood by our shareholders and the dividend policy is set out on page 96 of this Annual Report and Accounts.

What risk factors have most affected the Board's thinking in 2019?

The fundamental risk which we consider as a Board is the underwriting risk which we assume as a Group. In this regard, readers will be interested in the work which we carry out in setting capital risk tolerances for underwriting risk and in monitoring those risks, which are described in more detail in the risk section of this Annual Report and Accounts (see pages 30 to 39) and in the summary of the Group's probable maximum losses (PMLs), which are monitored by the Board on at least a quarterly basis. In his report on page 13, Alex mentions how we think about climate change risk within the business. This is increasingly a topic of debate within the Board and its various Committees (see the Risk and Governance sections of this report commencing respectively on pages 30 and 48 for further discussion of these issues).

The Board has also monitored the risk arising from the UK's Brexit process during the year. We are satisfied that measures are in place to mitigate some of the adverse effects on the Group's business, although this matter will be kept under review during the coming year. For a further discussion please see the Risk section at page 38.

Other areas of focus for the Board during the year have included oversight of business culture within the Group as well as issues of staff development, retention and succession. Please see my introduction to the Governance section of this report on page 48 for an account of the work of the Board in these and other areas and our governance arrangements for the 2019 year.

Peter Clarke
Non-Executive Chairman

The Board announced the appointment of Natalie Kershaw as an Executive Director and Group CFO on 5 December 2019. Natalie will assume her new roles on 1 March 2020.

"I look forward to welcoming Natalie to our Board and to the fresh insights that she will bring to her role."
– Peter Clarke

"Natalie has been an insightful and dedicated team member for nearly 10 years. Her appointment is testimony to the strength of our management team and our succession planning."
– Alex Maloney