Financial review

Disciplined underwriting and maximising returns

Q&A

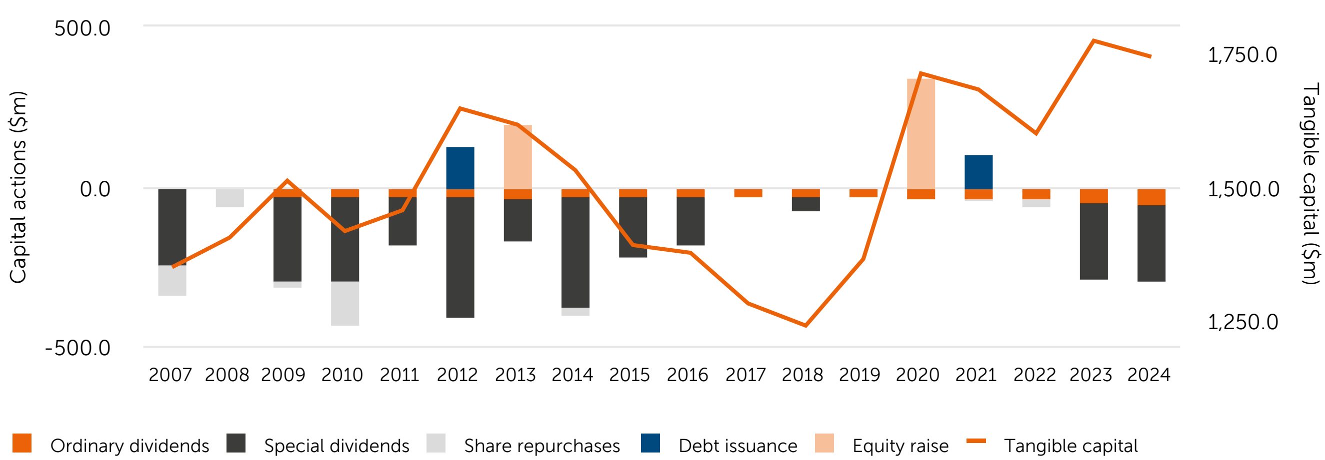
"Lancashire's strong financial performance in 2024 clearly demonstrated the benefits of our growth and diversification strategy."

Natalie Kershaw
Group Chief Financial Officer

For the year ended 31 December	2024 $m	2023 $m	2022 $m
Highlights			
Gross premiums written	**2,149.6**	1,931.7	1,652.3
Insurance revenue	**1,765.1**	1,519.9	1,226.5
Insurance service result	**379.9**	382.1	141.6
Net investment return	**162.2**	160.5	(76.7)
Profit (loss) after tax	**321.3**	321.5	(15.5)
Dividends[1]	**354.2**	155.3	36.2
Net insurance ratio	**71.3%**	65.1%	83.4%
Combined ratio (discounted)	**80.0%**	74.9%	90.2%
Combined ratio (undiscounted)	**89.1%**	82.6%	98.7%
Total investment return	**5.0%**	5.7%	(3.5)%
Diluted book value per share	**$6.03**	$6.17	$5.48
Change in diluted book value per share	**23.4%**	24.7%	(1.2)%

1. Dividends are included in the financial statement year in which they were recorded.

Capital actions chart[1]



1. Dividends are included in the capital actions chart in the year to which they relate.

How would you sum up Lancashire's performance in 2024?

2024 has been another extremely strong year for Lancashire and we have delivered an excellent overall result. Our profit after tax of $321.3 million represents another exceptional year. We have maintained our emphasis on underwriting discipline and maximising risk adjusted returns through product diversification. The benefits of the strategic changes we have made to the business in the last few years are now evident. In particular, we continue to focus on return on capital, as measured by the change in diluted book value per share in 2024 of 23.4%.

How has Lancashire balanced its risk exposures and capital to generate returns for investors?

Managing our capital resources and our risk exposures is a core part of our purpose. We have a long track record of successfully doing this and that continued in 2024. As a specialist underwriting business, our goal is always to be good stewards of capital and to use our resources where we believe the best returns can be found. We always aim to generate sustainable returns for our investors by continuing to manage our risk exposures and capital resources as we look to the next phase of development for Lancashire.

Ultimately, flexible use of capital is in our DNA and our considered approach to balancing our capital requirements – always reflective of the underwriting environment – means we can grow the business when conditions are right and also reward our shareholders. Since inception Lancashire has returned more than $3.4 billion to shareholders and raised around $550 million of equity capital to grow at the optimal points in the cycle.

How has Lancashire considered capital returns for shareholders during 2024?

Our philosophy is not to hoard capital and to return it to shareholders when it is not required to support our underwriting. Those decisions are always made collaboratively across the business with ongoing cross-departmental discussions. The relatively small size of the Company, efficient structure and incentivisation plans make those conversations straightforward.

In March 2024, we announced a change to our regular final and interim ordinary dividend policy to increase regular returns to our shareholders by 50%.

In November, due to the strong operational performance, we also announced a special dividend of $0.75 per common share. For the full year, we paid out $354.2 million in dividends.

In an active industry loss environment, what has been Lancashire's focus?

2024 saw a number of significant loss events, both elemental and non-elemental. Aon estimates that insured market-wide losses for the year are likely to be in the region of $145 billion, exceeding the 2023 level of $125 billion.

The growth and diversification efforts we have successfully implemented mean that larger losses are much less impactful to our earnings. Over the past five years, we have worked hard to balance our underwriting portfolio and increase diversification across products. While we remain committed to underwriting catastrophe risk, these steps have been successful in making Lancashire more able to absorb volatility.

We are now better able to absorb large losses and return an underwriting profit, robust combined ratio and a strong RoE. Total catastrophe, weather and large losses, (undiscounted and net of reinstatement premiums), for the year were $214.1 million. Even with this quantum of losses our undiscounted combined ratio was a healthy 89.1%.

Lancashire has always had a conservative reserving philosophy. What drives this and do you see that changing?

Our prudence in reserving is also part of our DNA and won't change. This conservative approach has helped support the business over the long term and Lancashire has never had a year of reserve strengthening. Our robust reserve setting process is validated through external actuarial reviews twice a year and we will maintain this disciplined approach.

For 2024, the confidence level of our net insurance reserves was 86%, with a net risk adjustment of $256.8 million, or 14.7% of net insurance contract liabilities. Importantly, our confidence level remains within our preferred range of 80%-90%.

Additionally, favourable prior year loss development totalled $121.1 million, resulting from general IBNR releases due to a lack of reported claims and releases on natural catastrophe loss events across the 2022 and 2021 accident year. We also benefited from the release of expense provisions and reductions in outwards reinstatement provisions.

How has the investment portfolio performed during 2024 and how important is it to the business?

Our investment portfolio has grown substantially in recent years, resulting in a more meaningful contribution to Group RoE. During the year, the investment portfolio performed very well, generating a return of 5.0% or $162.2 million. These returns were driven primarily from investment income given the higher yields during the year on the growing portfolio.

Our portfolio remains relatively conservative with an overall credit rating of AA-. We will continue to maintain a short duration, high credit quality focus with some diversification to balance the overall risk-adjusted return.

What is Lancashire's capital position going into 2025?

Our diversification strategy over recent years has improved our capital efficiency. We hold a conservative capital position, such that we can withstand a significant catastrophe event and still retain our ratings and regulatory solvency position. We monitor capital and headroom against internal, rating agency and regulatory requirements.

As an underwriting business it is important that we hold sufficient capital so we can continue to write business immediately after a market-turning event. This ability to be flexible and deploy capital aligned to the market opportunity – and return it dependent on the cycle – has been very successful. At our heart we are an entrepreneurial company, and we are confident that we have the capital required to make the most of the opportunities we see in the market, including supporting our planned growth in the US.

In January 2025, we saw the devastating impact of the California wildfires, which have caused major catastrophe losses for the (re)insurance industry.

Given our strong earnings performance and capital generation in 2024, Lancashire remains extremely well capitalised to fund future opportunities.

In addition, the aggregate reinsurance cover the Company has in place to protect against the frequency of large catastrophe events should allow Lancashire to deliver an attractive return for shareholders in 2025.