

Taking advantage of the opportunities



"Our focus on the long term means that we have the people and expertise to drive profitable growth."

Alex Maloney
Group Chief Executive Officer

Q: How did the loss environment in 2021 impact the Group's performance?

A: Financial losses are always disappointing but 2021 was only the second full financial year that Lancashire has made an overall loss since its inception, with a negative change in FCBVS of 5.8%.

Industry-wide estimates place insured losses from natural catastrophes during the year between \$105 billion and \$130 billion making it one of the most expensive on record and resulting in a combined ratio for Lancashire of 107.3%.

As always, we have followed our established reserving philosophy, which has served us well over time, and the losses were within the risk tolerances for each of the lines.

The weather and large risk events, which were distributed across a number of classes, offset our strong underlying profitability after nearly four years of rate increases, as shown by improvement in our attritional loss ratio.

In the face of 2021's heightened loss activity, the build-out of our franchise that we have targeted over the past few years still had a positive impact. We went into 2021, and go into 2022, with a more diversified portfolio of products because we believe these offer the best underwriting opportunities for long-term profitability.

Our underwriting expertise across classes – both catastrophe and non-catastrophe – means that we have a much more stable business. For example, our 2021 combined ratio compares favourably with that of 2017, which saw lower total catastrophe losses.

This transformation of the business into one which is better able to withstand and absorb significant loss events is testament to the groundwork that we have put in during recent years.

As a risk business, we are always going to be exposed to a variety of events, across classes, which can impact our performance but the growth we have seen during 2021 has been outstanding and I believe significantly increases our resilience over the long-term.

Despite the disappointing returns of the past year, we are fully energised by the prospects for 2022 and profitable growth remains our main goal.

Q: In which areas has the business seen growth during the year?

A: For the last few years, we have focussed on putting in place strong foundations on which to build when the market cycle offered significant opportunities for growth. Our long-held strategy is to operate nimbly through the cycle, and I am a firm believer in the cyclical nature of (re)insurance markets. 2021 was a year when we saw strong momentum in the right direction for a business like Lancashire, which has taken the time and effort to build a bench of underwriting talent and the internal processes needed to take advantage of more positive pricing.

I am pleased to say that we are seeing growth across most classes of business that we underwrite. In fact, many are now in their fourth year of positive rate changes, and we believe that will continue into 2022. For 2021, we reported an increase in gross premiums written of 50.5% to \$1.2 billion which is an exceptional achievement. Much of this growth was driven by the property and casualty reinsurance segment where we have seen both new business and rate increases. We never stand still when there are opportunities for profitable and considered growth and I am pleased about the performance of our casualty, accident and health, and specialty reinsurance classes. We have a



Q: What does the 'Lancashire way' mean to you?

A: It's the way that parts of the business can come together creatively to find the right solution, whatever the question. It is our distinct way of doing things always shaped by our values, which are at the centre of our culture. We regularly challenge ourselves and ask whether we are living up to those principles. These values are so embedded within our company DNA that we don't always realise how special that is.

A strong and positive corporate culture isn't a by-product of success but the reason for it. Despite our recent growth, we are still a relatively small company, so we get to know each other, and our flat hierarchy gives everyone a voice and an opportunity to do their best.

The Lancashire way also means listening to our people and encouraging them to challenge us, bring in new ideas, and find new ways of doing things. One thing that has become clear during my time as Group CEO is that you will only succeed if you work as a team and feed off the energy that comes from collaboration and finding the right answers together.

pipeline of premiums coming through and I am confident that our investment in new talent was the right thing to do. The premium growth also reflects the growing diversity of our risk portfolio which will allow us to more effectively deploy our capital and manage volatility within our portfolio. We have great people at Lancashire and our new teams join what I believe is already one of the strongest companies in the sector.

Q: How has the business strategy changed in 2021?

A: When you set a strategy, you have to believe in it. It has to be the essence of how you operate. Our strategy hasn't changed in its fundamentals since the business was founded – we believe that underwriting comes first; we need to balance risk and return; and importantly have the agility to operate through the cycle. 2021 was undoubtedly a challenging year, due to the impact of a series of industry loss events, which in the short term have adversely affected our profitability and growth in book value, but we will continue to deploy our long-term strategy at this stage of the cycle. Sometimes you also need a little patience, and I am excited that we are now seeing the positive market changes that we have been predicting. Everything we do is driven by the underwriting opportunity. I believe in the long-term and in navigating the Group with a clear focus on what we are doing and where we are going. That means future-proofing the business through investment in talent and ensuring operational efficiency with a laser-sharp focus on getting the fundamentals of the business right.

A practical example of this in 2021 was in the evolution of how the business addresses ESG themes.

To better align our consideration of sustainability and governance matters I took action to establish the Lancashire ESG Coordination Committee (the ESG Committee) and the CCWG, both of which include senior representatives from across the business. They analyse a range of topics and make recommendations to senior management and ultimately the Board.

Every employee has been on a personal journey to get here. They bring those experiences with them and that helps to create an incredibly vibrant and stimulating environment. We don't cut corners, but we do find the quickest route to a solution. At its heart, the Lancashire way is harnessing the skill, passion and dedication of our people. I am incredibly proud to lead this company and I want to take this opportunity to thank every one of our employees for their hard work and support.

Q: What opportunities are you seeing going into 2022?

A: This is a really exciting time in the market cycle. But you can't just go with the flow, you have to be in a position to take advantage of the opportunities it offers. In the last couple of years, we have raised equity and restructured our debt which has put us in a great position from a capital perspective to support our underwriting plans. We have a strong capital position and it's one that I am very comfortable with.

The challenges of 2021, where we saw a particularly active catastrophe year, can also offer opportunities for growth as others in the market move out of some classes. Our focus on the long-term means that we have the people and expertise to drive profitable growth where it makes sense for us to do so and take advantage of the rate improvement that comes following a year of heightened loss activity. The opportunities for 2022 are there, with expected rate increases on our existing portfolio, our new teams delivering additional premiums, and new business growth within existing lines of business both catastrophe and non-catastrophe. While we aim to grow during 2022, we will do so with a business that is better balanced through the diversity that our specialty and casualty non-natural catastrophe business brings. This is not diversification for diversification's sake but a clear delivery of our strategy to take the opportunity to write classes of business that contribute profitably to our portfolio mix.

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