Building for growth

"We are in a strong position, with sufficient capital headroom, to deliver value from positive market pricing."

Natalie Kershaw
Group Chief Financial Officer

Q: What has 2021 been like from your perspective?

A: In a year characterised by an active loss environment, we remained resilient and importantly continued to build on our strong foundations for the future. We have been busy developing our teams for new underwriting opportunities, including in support functions, to provide a strong platform for the growth that we have seen this year and expect to continue in 2022.

Although the extent of losses in 2021 is obviously disappointing for us, it is estimated to be among the costliest years for insured losses since 1970. Our efforts to grow the business and diversify our portfolio of products over the past couple of years were successful in providing a ballast to the catastrophe losses, with total catastrophe and large losses of $306.4 million resulting in a combined ratio of 107.3%. For comparison, Lancashire's 2017 catastrophe and large losses totalled $213.7 million and resulted in a combined ratio of 124.9%.

Our overall comprehensive loss of $92.9 million was also impacted by unrealised losses on our fixed maturity investments, given increases in treasury yields in the year, as well as one-off financing costs due to our Tier 2 debt issuance.

So while 2021 was a frustrating year, we have made a lot of progress including refinancing all our debt to make our capital structure more efficient.

Q: Has Lancashire's reserving philosophy changed during 2021?

A: Our approach to reserving for catastrophe losses is well established. We utilise actuarial modelling techniques, historical loss experience analysis and professional judgement to estimate ultimate losses. For catastrophe loss events we bring together a highly-skilled team from across the Group, including underwriters, claims and actuarial staff, as well as senior management to review all our potentially exposed lines of business. This enables us to assess the likelihood of claims arising within our underwriting portfolio.

Financial highlights

	2021 $m	2020 $m	2019 $m	2018 $m	2017 $m
Gross premiums written	**1,225.2**	814.1	706.7	638.5	591.6
Net underwriting profit (loss)	**69.0**	77.0	186.5	121.7	(23.1)
(Loss) profit after tax[1]	**(62.2)**	4.2	117.9	37.5	(71.1)
Comprehensive (loss) income[1]	**(92.9)**	24.3	145.7	24.7	(66.2)
Dividends[2]	**36.4**	32.3	30.2	70.2	29.9
Diluted (loss) earnings per share	**($0.26)**	$0.02	$0.58	$0.19	($0.36)
Fully converted book value per share	**$5.77**	$6.28	$5.84	$5.26	$5.48
Change in FCBVS	**(5.8%)**	10.2%	14.1%	2.4%	(5.9%)
Combined ratio	**107.3%**	107.8%	80.9%	92.2%	124.9%
Accident year loss ratio	**81.0%**	71.4%	51.3%	70.0%	94.2%
Total investment return	**0.1%**	3.9%	4.9%	0.8%	2.5%

1. Amounts are attributable to Lancashire and exclude non-controlling interest.
2. Dividends are included in the financial statement year in which they were recorded.

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

A: I've been with Lancashire for 12 years and have held a number of different roles in both London and Bermuda before becoming the Group CFO in 2020. During my time here I have come to recognise and value the people that we have throughout the organisation. We have a very strong culture, underpinned by our strategy and values, and I am really proud of what we are achieving together. We attract high-quality people to the business who are not only technically skilled in their individual areas but who also add something more personal to the Group. This strengthens not just what we do, but also how we do it. As a meritocratic business we also work hard to promote from within when we are able to do so (see page 46).

Due to the types of specialty and casualty business that we write, we are also exposed to large risk claims, which can take some time, often years, to settle. This means that there is uncertainty in the reserving process and we can experience substantial swings in prior years' reserves either moving for or against us. However, I would stress that we have had overall favourable prior year loss development in every calendar year since the Company was founded.

Q: How would you summarise the Group's capital position following the 2021 industry losses?

A: 2021 was undoubtedly a challenging year for the whole industry. Despite the significant loss events we have seen, I remain very comfortable with our robust capital position. Our strategy is to actively manage our exposures dependent on market conditions and match our capital to support the underwriting environment. This means having the available capital to support profitable growth opportunities when they arise. We raised $340.3 million in equity capital during 2020 and an additional $123.0 million of debt capital in 2021. This has enabled us to substantially grow our premium base. We see opportunities to grow our premium continuing into 2022 and we are in a strong position, with sufficient capital headroom, to deliver value from positive market pricing. Looking forward, the planned growth in 2022 is expected to be focused in less capital-intensive lines of business. The small repurchase programme of one million common shares totalling $6.9 million in the fourth quarter of 2021 funded future exercises of awards under our RSS.

Q: How has the business approached preparations for the IFRS 17 changes?

A: The transition to IFRS 17 is the biggest insurance accounting change for more than a generation. We have been working hard to ensure that our systems, data, processes and people are ready for the parallel testing in 2022 and final implementation in 2023. This has been a real collaborative effort with teams from accounting, actuarial and IT working together. It has also been an opportunity to review how we work and to make sure that we are delivering financial information to the business in the most efficient way possible. The transition to IFRS 17 is just one of the business transformation projects that Lancashire is currently undertaking. Going forward we aim to harness data more effectively to position the business for future growth while reducing operating costs and inefficiencies.

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