

Principles for Sustainable Insurance

The UNEP FI Principles for Sustainable Insurance ('the Principles') serve as a global framework for the insurance industry to address ESG risks and opportunities. The Principles are directed at achieving a better understanding of environmental, social and governance risks, with a view to promoting the prevention and reduction of harm and enhancing opportunities for effective risk protection and reporting.

The Board has reported against the Principles since 2019 and seeks to monitor and embed the Principles in the delivery of its strategy. This table summarises how the business applied the Principles during 2020 and directs readers to where the relevant activities of the Board and business in embedding the Principles are discussed in more detail within this Annual Report and Accounts.



Principle 1

We will embed in our decision making environmental, social and governance issues relevant to our insurance business.

For more information please see:

Company strategy

We embed ESG issues within our Board and management's strategic and business planning processes to foster a strong, purposeful and profitable culture of sustainable governance. The business is led by a strong management team accountable to an independent, diverse and effective Board and Committee structure.

Purpose statement (inside cover)
Engagement and sustainability – Section 172 (page 48)
Governance report (pages 64 to 66)

Our principal strategic purpose is to deliver bespoke risk solutions that protect our clients and support economies, businesses and communities in the face of uncertain loss events, including those influenced by the effects of climate change. During 2020, the Group has taken further steps to implement the recommendations of the TCFD in developing greater formality around the understanding of the impacts of climate change risk and implementing an appropriate governance framework for climate change management. We formally monitor our climate exposures and build this into our risk management and strategic planning, both as a risk and opportunity for the business. We are also starting to develop a picture of the likely impacts of a range of climate change scenarios on the Group's insurance operations and its investment portfolio. We are committed to monitoring and offsetting the Group's own carbon emissions.

Purpose statement (inside cover)
Chief Executive's review (pages 14 to 15)
Underwriting review (pages 22 to 24)
Climate change and TCFD strategic planning, risk management and resilience testing (Enterprise risk management section pages 30 to 33) and our TCFD journey (pages 58 to 61)
Environmental impacts and offsetting (pages 53 to 54)
Investment Committee report – carbon pricing, portfolio sensitivity analysis (page 77)

Management and the Board actively support the work of the Lancashire Foundation, which promotes engagement of our staff with a range of charitable and social projects, including a record of assistance to disadvantaged communities blighted by catastrophic events including the COVID-19 pandemic.

Communities, including the Lancashire Foundation (pages 54 to 56)

We value our people and the strategic benefits of a healthy business culture. Our management team and Board promote an active programme of engagement and we operate a robust, yet flexible, programme of staff training and opportunities for career development.

We offer attractive remuneration and employee benefits packages and have a planned approach to succession, staff retention and employee satisfaction.

Succession planning (page 51)
Engagement and people (page 52)
Workforce engagement and culture (page 50)
Employees/Health and safety (page 107)

There is regular engagement with our shareholders and other stakeholders by management, the Board and the business, touching upon a range of strategic and business issues, including the Group's approach to a range of ESG matters.

Purpose statement (inside cover)
Strategic report (pages 16 to 17)
Chairman's introduction – ESG implementation (pages 42 to 43)
Governance report (pages 64 to 66)
Investment Committee report – work on portfolio ESG management (page 77)



Principle 1 continued

We will embed in our decision making environmental, social and governance issues relevant to our insurance business.

For more information please see:

Risk management and underwriting

There is a strong culture of underwriting discipline and risk management within the Group, which values professionalism and embeds risk monitoring and control processes in our underwriting activities. Environmental risk exposures, including assumptions related to climate change, are embedded into our risk management, underwriting processes and capital management.

Chief Executive's review (pages 14 to 15)
Enterprise risk management and principal risks (pages 30 to 41)
Risk disclosures (pages 131 to 152)

Management and the Board agree and monitor performance against formal risk tolerances, in particular with regard to the Group's exposures to natural catastrophe loss events, including weather events impacted by climate change.

Risk disclosures – peak zone elemental loss exposures (page 133)

Product and service development

Our (re)insurance products and services help our clients manage the threats they face from climate catastrophe risks and other unpredictable perils, contributing towards the resilience of businesses and communities faced with the threat of climate and other natural catastrophes.

Purpose statement (inside cover)
Underwriting review (pages 22 to 24)

The Board and management foster a nimble underwriting and business culture to respond to the risk requirements of clients in a changing world. Included within the Group's energy underwriting business is an established portfolio of renewable energy products and clients.

Chief Executive's review (pages 14 to 15)
Underwriting review (pages 22 to 24)

Claims management

Our experienced team of claims specialists is well-equipped with specific knowledge of our diverse product lines. We have high levels of expertise that allow us to effectively manage and thoroughly investigate any loss our clients may sustain. Our goal is to ensure timely and equitable claims resolution for our clients.

Business review – losses (page 26)
Engagement and sustainability – our policyholders (page 52)

Sales and marketing

We are fully committed to supporting a 'broker market' and to maintaining a strong working relationship with the largest global broking firms, as well as with independent brokers, who distribute our products. We seek to engage with our clients and their brokers to provide relevant and targeted risk solutions based on a sustainable strategy and business model.

Purpose statement (inside cover)
Engagement and sustainability – brokers (page 52)

Investment management

We actively manage our climate change transitional risk, with sensitivity to, and promotion of, ESG responsible investment. Our principal investment managers are signatories to the world's leading proponent of responsible investment, the UN-supported 'Principles for Responsible Investment'. We have also started to formally monitor the sensitivity of the Group's investment portfolio to the impacts of different carbon pricing regimes and to develop a better understanding of the resilience of the investment portfolio to carbon transition risk.

Principal risks – investment risk management (page 37)
Investment Committee report (pages 76 to 77)
Our TCFD journey (pages 58 to 61)



Principle 2

We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

For more information please see:

Clients and suppliers

We engage constructively with our clients, brokers and other suppliers to address environmental, social and governance issues relevant to the operation of our business and to address our clients' needs for risk management solutions across a range of specialty and property lines.

Purpose statement (inside cover)
Chief Executive's review (pages 14 to 15)
Underwriting review (pages 22 to 24)
Chairman's introduction (pages 42 to 43)
Investment Committee report (pages 76 to 77)

Insurers, reinsurers and intermediaries

We engage with industry bodies to develop and promote awareness of market issues (including environmental factors).

Chief Executive's review/comments on climate change impacts and actions (page 15)
Engagement and sustainability – (page 52)
Chairman's introduction (page 42)



Principle 3

We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

For more information please see:

Governments, regulators and other policymakers

Our Board and business operate constructively within a highly regulated insurance and financial services environment in the UK, Bermuda and internationally. Our Bermuda and UK entities have engaged during the year with their respective national regulators in relation to the management of climate change risk and the progress made in implementing the TCFD recommendations and in the monitoring of the impacts of the COVID-19 pandemic both operationally and strategically. As a listed company, LHL systematically monitors, records and reports its compliance with the Code.

Chief Executive's review (pages 14 to 15)
Chairman's introduction – sustainability, governance and regulation (pages 42 to 43)

The Board and business monitor and comply with relevant law and regulation. Examples include the Board's clearly articulated position regarding slavery and human trafficking, pursuant to the provisions and requirements of the UK Modern Slavery Act 2015. Our Board has also regularly discussed the recommendations of both the Hampton-Alexander and the Parker Reviews regarding gender and ethnic diversity.

Nomination Corporate Governance and Sustainability Committee report (pages 72 to 75)

The Board oversees the Company's annual submission to the Carbon Disclosure Project (CDP). The Group and its regulated subsidiaries are working to implement the recommendations of the TCFD.

Our TCFD journey (pages 58 to 61)
See also: LHL's responses on the CDP website



Principle 4

We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

For more information please see:

We offer clear and transparent ESG reporting through multiple channels, including our Annual Report and Accounts, our website and our work with the CDP.

www.lancashiregroup.com
See also: LHL's responses on the CDP website

We are committed to being transparent and accountable, by publicly disclosing the business's implementation of the Principles.

Chairman's introduction (pages 42 to 43)
Chief Executive's review (pages 14 to 15)