2019 Full year results presentation

Presenters and Q&A

Geoff Carter
CEO

Adam Westwood
CFO

Q&A

Trevor Web
Claims Director

James Ockenden
Chief Actuary

Today's agenda

Sabre INSURANCE GROUP

1 **2019 Highlights**
Geoff Carter

2 **Financial results**
Adam Westwood

3 **Market context**
Geoff Carter

4 **Sabre's strategic approach – A Reminder**
Geoff Carter

5 **Summary, COVID-19 impacts and Outlook**
Geoff Carter

6 **Q&A**
All

2019 Highlights

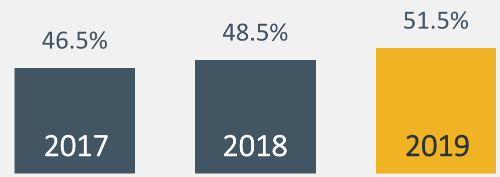
Geoff Carter

Financial highlights

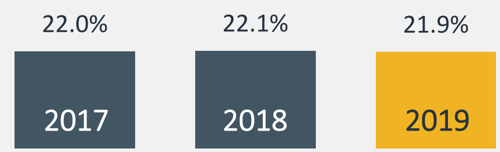
Continued absolute focus on profitability delivering robust results in the context of a turbulent market backdrop

- Leading underwriting performance, with continued strong profitability and returns, and attractive organic capital generation
- Year-on-year premium delta closed slightly in later months of the year despite annual rates increases in excess of 10%
- Tight focus on covering on-going significant claims and other industry cost inflation
- Full year dividend of 12.8p (Incl. 8.1p final ordinary dividend)
- No special dividend declared, at this point, pending greater clarity on COVID-19 wider economic impacts and having considered recent PRA / EIOPA communications
- The Board may propose an additional interim dividend to return excess capital later this financial year
- SCR coverage of 214% pre-dividend, 180% post interim dividend

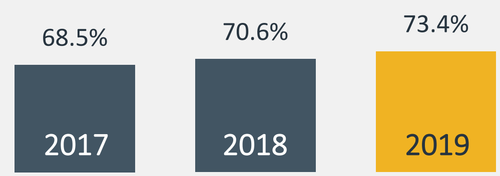
LOSS RATIO %



EXPENSE RATIO %



COMBINED OPERATING RATIO %



Operational highlights

Current focus

- Tracking / covering long-run claims and other cost inflation with price increases
- Optimising profit within our mid-70% to 80% ceiling COR range
- Understanding possible changes following whiplash reforms and being ready to respond appropriately
- Continued roll-out of innovative new rating factors and data sources
- Integrate machine learning into the claims process and elements of pricing
- Responding to COVID-19 operational challenges

Operational highlights

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Other activities

- Rolled-out "Insure 2 Drive" van insurance to most price comparison websites
- Agreed new distribution agreement with SAGA to launch mid 2020
- Appointed Goldman Sachs Asset Management to manage investments within conservative guidelines
- Maintained high levels of staff retention, with over 90% of colleagues recommending Sabre as a place to work
- Continued to reward colleagues for supporting our success through share schemes, performance bonus and annual year end tax free bonus.
- Continued to expand underwriting footprint to allow us to offer prices to more customers

Continued focus on Sabre DNA:

"Do less, and obsess…"

Financial results

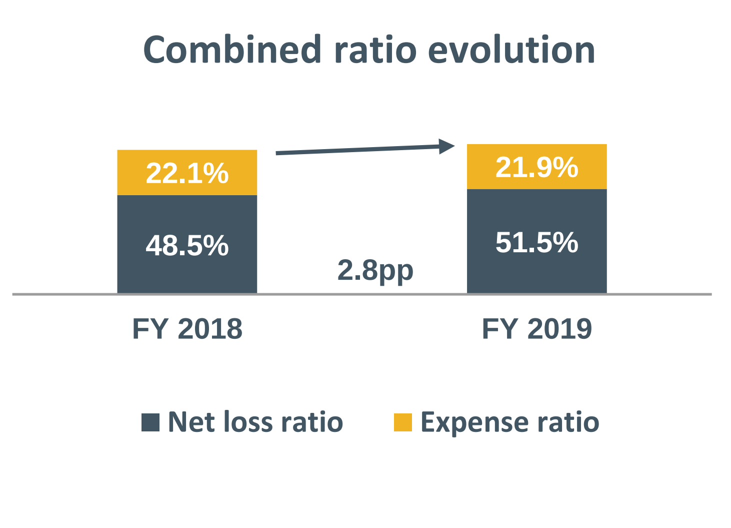
Results summary

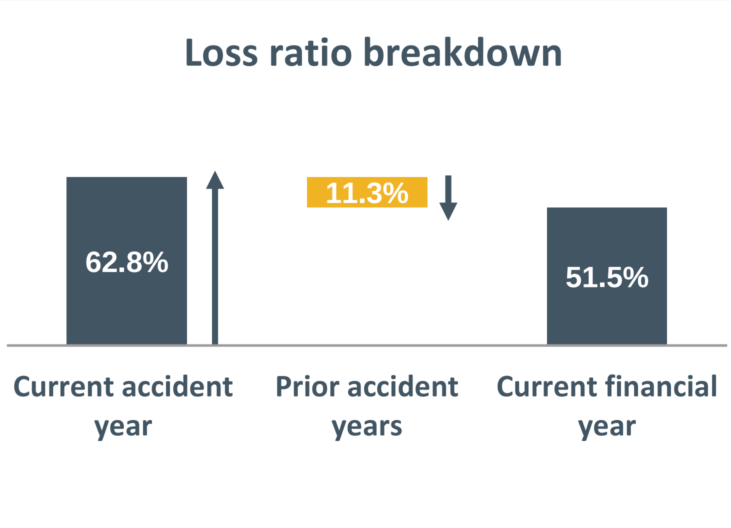
2019 financial performance

	FY 2019	FY 2018	Change
Gross written premium	**£197.0m**	£210.0m	(£13.0m)
Net earned premium	**£183.2m**	£188.2m	(£5.0m)
Combined ratio	**73.4%**	70.6%	2.8ppts
Investment return	**£2.4m**	£0.8m	£1.6m
Adjusted profit before tax	**£56.5m**	£61.9m	(£5.4m)
Adjusted profit after tax	**£45.7m**	£50.1m	(£4.4m)
Profit after tax	**£45.7m**	£49.6m	(£3.9m)
Basic EPS	**18.4p**	19.9p	(1.5p)
Dividend per share	**12.8p**	20.0p	(7.2p)
Solvency coverage ratio	**214%**	213%	1ppt
Post-dividend	**180%**	161%	19ppts
ROTE	**41.6%**	54.4%	(12.8ppts)
Return on opening SCR	**74.9%**	82.0%	(7.1ppts)

- Premium income down 6.2% against the same period in 2018, while we continue to increase prices to match claims inflation
- Combined ratio impacted by increased cost of claims and some increases in fixed costs
- Investment return impacted by market-value movements. Portfolio remains ultra low-risk and primarily gilt-based

Leading underwriting performance





- Financial year combined ratio below long-run mid-70% target, driven by a strong loss ratio
- Current accident-year loss ratio represents claims incurred in the accident year to date and is consistent with business being written towards the upper end of the 70-80% target range
- Prior-year reserve movement continues to represent run-off of margins
- No changes to reserving methodology
- Expense ratio benefit from a c.£3.3m one-off accrual release (1.9% benefit to expense ratio). Underlying ratio up on 2018 primarily due to increase in levies and slight increase in fixed cost base against a reduction in top-line
- Immaterial (c. £0.3m benefit) net impact from the Ogden rate change

Conservative approach to risk

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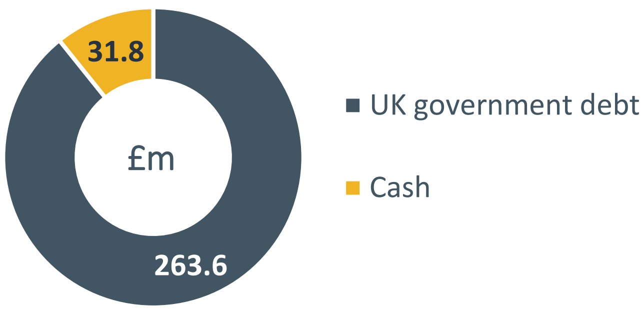
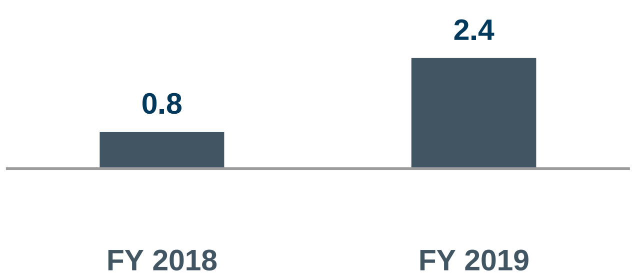
Investment portfolio breakdown

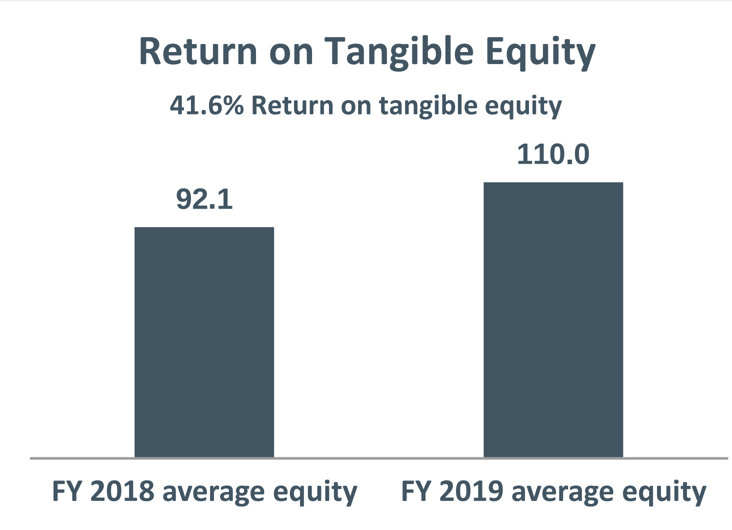


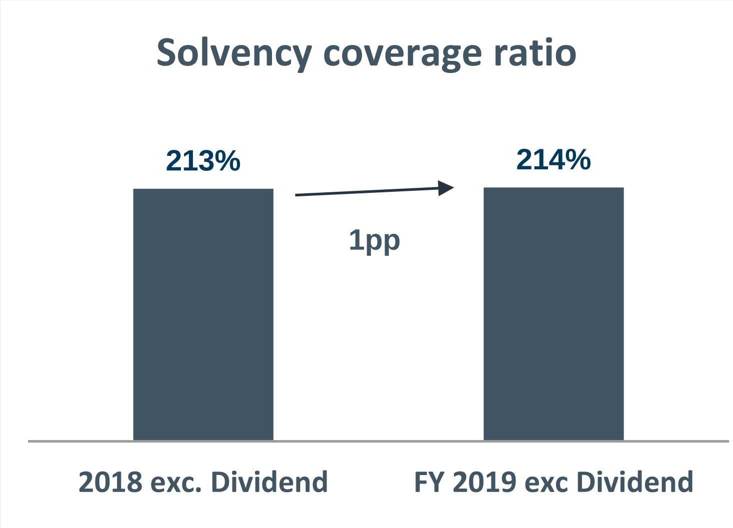
Investment return evolution (£m)



- Investments continue to be held in UK government bonds, in-line with our conservative approach to risk
- Investment portfolio managed in-house and focused on capital preservation to support our profitable underwriting activities
- Engaged Goldman Sachs Asset Management in early 2020 to improve yield while maintaining a very low-risk portfolio. Will introduce some high-rated corporate bonds over time.
- Minimal expected impact of revised investment approach in the short-term

Attractive capital generation





- We continue to benefit from strong profitability and an efficient capital model
- Strong capital generation led to a year-end solvency ratio of 214%
- Dividend policy set out at IPO is to pay an interim dividend equal to one third of the prior-year's ordinary dividend
- Post dividend capital ratio of 180%, leaving sufficient capital to minimise constraints on growth and protect against adverse shocks to the business

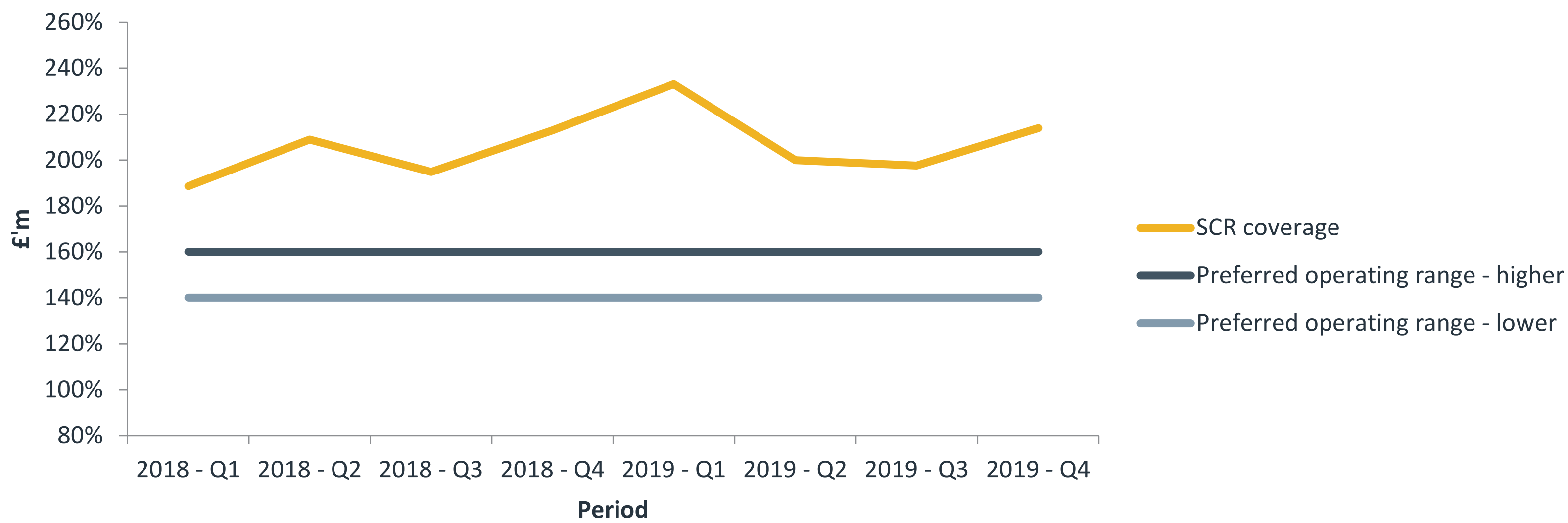
Year-end dividend in respect of 2019 consists of an ordinary dividend of 8.1p per share

Full dividend of 12.8p per share in respect of 2019, including interim of 4.7p paid during 2019.

Approach to capital management

Our approach	— Prudent approach to regulatory capital with a minimum SCR of 140% — Focus on underwriting discipline generating organic capital - target long term COR of mid-70%
Continued investment	— Continued investment in business to enhance product capabilities and maintain operational efficiencies
Capital distribution	— Ordinary dividend pay out ratio of 70% — At year-end, consider distribution of surplus capital beyond top of SCR range of 160% — Target range of 140%-160% enables more stable returns of capital to investors by supporting dividends during cycle downturns or periods of rapid growth

Solvency II Capital Over Time



Market context

Sabre view of claims inflation

- Sabre view of market claims inflation is consistent YOY, but with a possibility this may trend upwards
- Likely that mix of business underwritten will see competitors in a range around this

Overall inflation 7.5-8.5%

"Bent Metal"
10% inflation

Theft >
25% inflation

PI frequency flat, severity
circa 4% inflation

Possible premium inflation factors

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Additional "Bent Metal" claims inflation factors

- Ongoing migration of Third Party claims to a credit repair model
- Credit Repair costs materially higher than traditional subrogated costs and higher levels of inflation
- Increased Total Loss values (driven by increases in repair costs)
- Credit Hire severity flat, but penetration increased

Sabre seeking to capture own and third parties claims to mitigate these industry driven increases

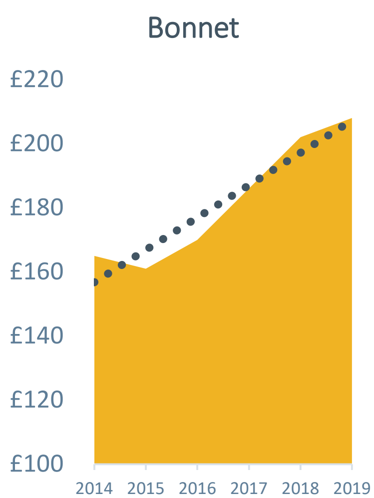
Innovation Group parts cost analysis

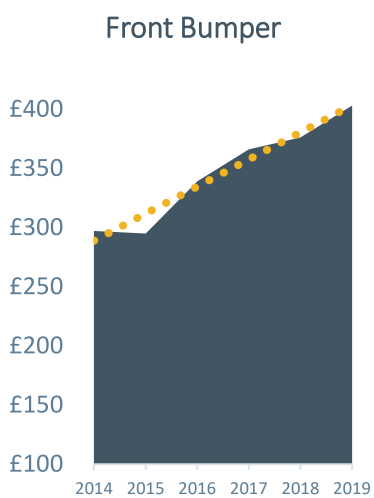
- Innovation Group (IG) provide our First Notification of Loss (FNOL) facility and manage repairs on our behalf
- They facilitate the repair of vehicles across a range of insurers and other partners
- This gives us the ability to benefit from the same “Buying Power” as an insurer with circa 4m motor policies
- Following analysis is across all their repairs, not just Sabre portfolio

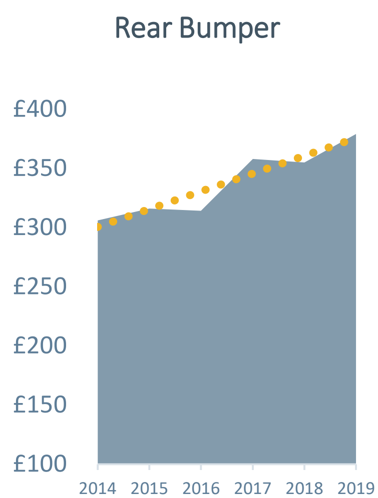
Ford Fiesta

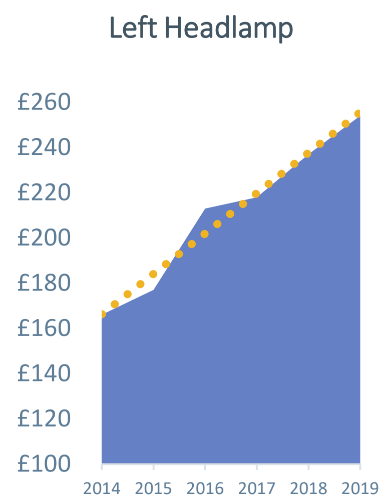
Average Manufacturers List Price per year

OEM part	2014	2015	2016	2017	2018	2019
Bonnet	£165	£161	£170	£186	£202	£208
Front Bumper	£297	£295	£339	£366	£376	£403
Rear Bumper	£306	£316	£314	£358	£355	£379
Left Headlamp	£166	£177	£213	£218	£237	£254
Right Headlamp	£162	£178	£209	£216	£230	£253





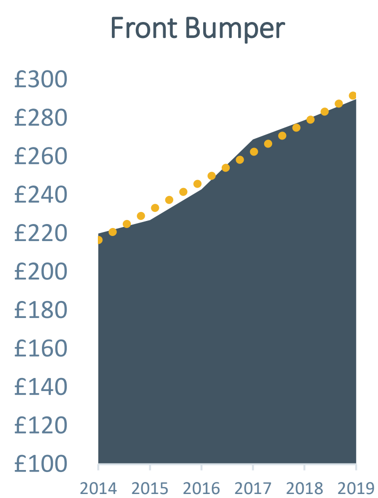


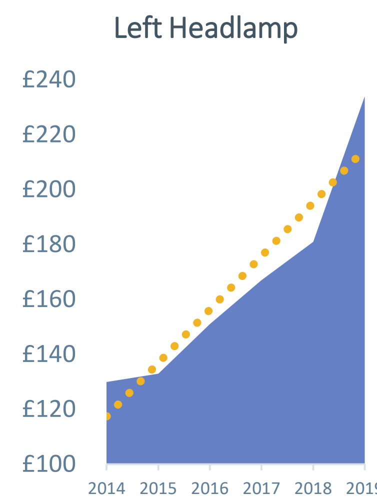


Vauxhall Corsa

Average Manufacturers List Price per year

OEM part	2014	2015	2016	2017	2018	2019
Bonnet	£182	£188	£218	£244	£256	£257
Front Bumper	£220	£227	£243	£269	£279	£290
Rear Bumper	£210	£206	£221	£239	£255	£258
Left Headlamp	£130	£133	£151	£167	£181	£234
Right Headlamp	£123	£136	£152	£170	£186	£223

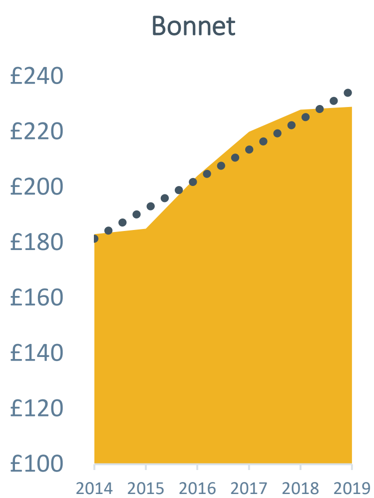


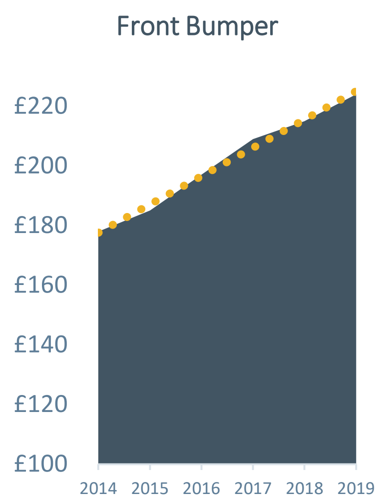


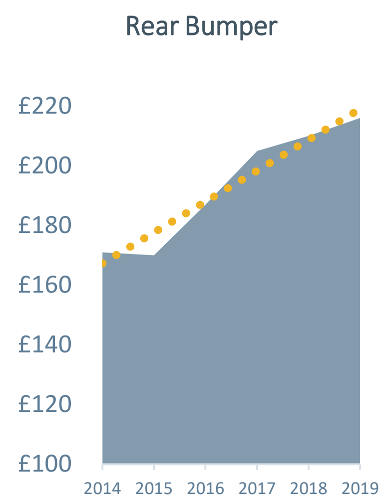
Volkswagen Polo

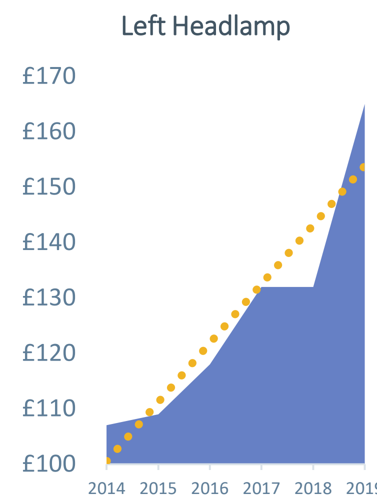
Average Manufacturers List Price per year

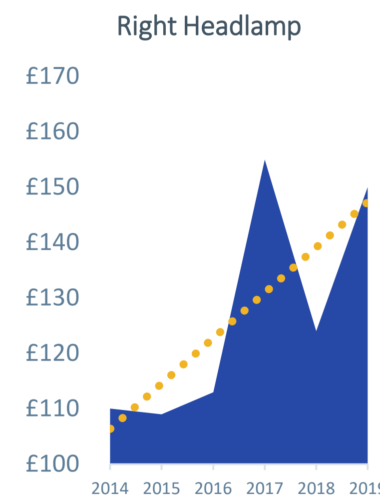
OEM part	2014	2015	2016	2017	2018	2019
Bonnet	£183	£185	£204	£220	£228	£229
Front Bumper	£178	£185	£197	£209	£215	£224
Rear Bumper	£171	£170	£187	£205	£210	£216
Left Headlamp	£107	£109	£118	£132	£132	£165
Right Headlamp	£110	£109	£113	£155	£124	£150











Premium inflation position

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Year-on-year premium delta consistent, despite continued rate increases

- Evidence of market rate increases late 2019 and into 2020
- Anecdotal feedback from brokers suggests a steady drip feed of inflationary monthly increases now underway…
- ….but we have not seen a step-change to materially close the premium increase / claims inflation jaws

Possible future premium inflation factors

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Possible premium inflation factors

- Continued claims inflation ↑
- Competitor margin squeeze ↑
- Whiplash reforms impact ↔
- Lawyer legal reforms response ↑
- FCA pricing review ↑
- MIB levy increase ↑
- Reinsurance cost increase ↑

Possible premium deflation factors

- Modest (at best) Whiplash reforms

Sabre Strategy

- Continue to price in mid 70%'s to 80% ceiling range optimising long term profit.
- Changes reflected as they emerge and avoiding speculation

Possible premium inflation factors

FCA Pricing Review

- Proposed remedies due in summer
- Believed to be a clear understanding that renewal discounts will drive an equalling impact on new business
- Little recent communication on likely shape of remedies

Sabre does not utilise inertia pricing or propensity modelling, and prices are calculated purely from risk factors

Market claims / premium inflation

- Sabre continues to see significant on-going claims inflation. Current view at circa 8% but with potential to increase
- Claims inflation driven by increased costs due to technology in newer vehicles, theft and credit hire.

Possible Impacts

- If current dynamics continue, potential margin squeeze across the industry likely to continue
- Current market premium increases may be maintaining but not closing jaws to claims inflation

Sabre has sought to fully cover emerging claims experience with price increases in 2019 and into 2020, maintaining its underwriting discipline

Possible premium inflation factors

MIB Levy

- Levy certain to increase due to Ogden costs impacting MIB "normal" claims
- In addition recent Supreme Court judgement has held MIB responsible for accidents occurring on private land involving uninsured vehicles
- MIB picking up operational costs of new MOJ procedures
- Possible increase of 17-20% on previous levies

Sabre is taking a cautious approach and funding for a material increase

FSCS levy

- There have been several insurance company failures in 2019 (Elite, Octagon, Lamp, Qudos)
- Others may be struggling as non UK regulators increase focus on solvency levels
- Whilst failures of more specialist motor insurers provide an opportunity there is a risk of increase in the FSCS levy

Sabre is monitoring and will amend prices appropriately

Possible premium inflation factors

Reinsurance Costs

- Market price increases advised for 31 /12 renewals range from mid single digit to significant double digit increases driven by Ogden impacts
- Size and claims experience drive the level of increase
- Sabre renewal 1/7

Sabre does not expect to be at the higher end of increases but are increasing prices modestly to ensure no risk of a funding gap post our renewal

Whiplash reforms (Civil Liability Act)

- Range of outcomes from modest claims cost decreases to a mildly inflationary impact
- Will be some time before impacts can be accurately assessed

Sabre will reflect changes once known rather than speculate

Civil Liability Act – where are we?

Known

- Original plan to go live April 2020 for accidents occurring after that date now moved to August 2020
- Two portals have been built by MIB (one for represented claimants and one for unrepresented)
- The portals are in test
- Vulnerable road users excluded as are children and protected parties
- Applies to claims valued less than £5,000 and will exclude credit hire
- No alternative dispute resolution process will be made available to claimants
- Digitally disadvantaged will have access to a call centre to notify the claim
- Tariff Damages to apply
- Pre medical offers banned

Unknown

- The civil procedure rules remain unknown
- We do not know how multiple injuries (e.g. a soft tissue injury to neck and bruising to chest) will be valued, and test litigation may be required
- Timescales to respond and penalties for failure to meet prescribed timescales are yet to be communicated
- How to deal with suspected fraud in the process
- What volumes of claims can we expect through the portal
- How accident management companies will behave
- The final tariff damages are unknown

Civil Liability Act – where are we?

Risks

- Change of Government is the only resolved risk
- Rules and policy decisions cannot be supported by planned IT build
- Testing of portal identifies significant user issues
- A challenge to the implementation from a claimant lobby
- Individual compensators not IT / process ready
- A change to claim development triangles
- Claims will not be able to migrate from the small claims portal to the traditional portal where value / complexity demands

- Changes to current behaviours modified
- The emergence of new representation models, including unregulated representation
- Linked to that, the risk of consumer detriment as fees may not be proportionate or indeed capped
- Claims stacking (accumulating a personal injury claim and property damage claim) to escape the small claims limit
- Previous reductions in claims frequency are reversed.
- Receiving unmeritorious claims as the ADR process is fully funded by the compensator. A no risk punt

Possible premium inflation factors - Ogden

Ogden discount rate

Rate moved to (0.25%) from (0.75%) – announced 15th July 2019

Impact on Sabre

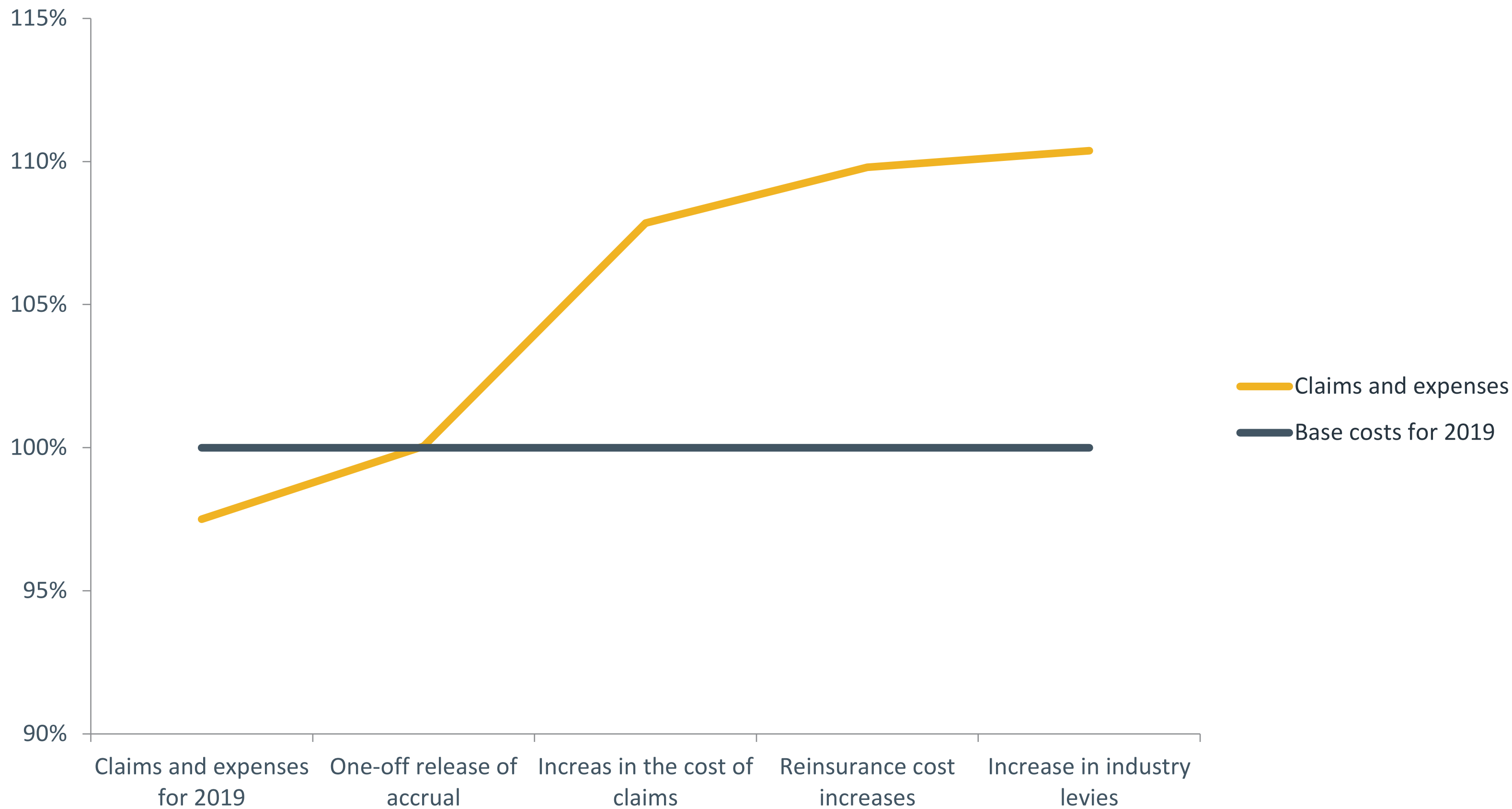
- Estimated impact on Sabre recorded in H1 2019 financial result
  - Approximately £0.3m net P&L benefit
  - Gross reserves decreased by c £9.0m

Impact on Insurance Market

- Smaller change than market generally expected
- Prices may need to be adjusted to account for gross and net increases in expected cost of claims

Sabre continued to rate / reserve on (0.75%) discount rate until change was announced – no material pricing adjustment required

Overall cost inflation



We intend to cover potential cost increases of over 10% with price changes with volume remaining an output, not a target

Sabre's strategic approach – A Reminder

Geoff Carter

Strategy and key business principles

Maintain wide underwriting footprint

Continue to develop defensive non-standard positioning

Market leading underwriting performance

Mid-70%

COMBINED RATIO TARGET
80% CEILING

Strong returns and cash generation

70%

BASE DIVIDEND PAYOUT

140-160%

TARGET SOLVENCY RATIO

Return excess capital to shareholders

Controlled and attractive growth across the cycle

Premium growth across the cycle

Pricing approach

In 2020 will seek to move towards the “bullseye” ahead of volume growth

2019 written position in soft market

70% low-end where growth outstrips operational capacity

75% “Bullseye” in stable market conditions

80% COR Ceiling

- At any point in time we seek to optimise long term profit by balancing volume / margin within this corridor
- Dependent on point in the underwriting cycle, greater margins more profitable than an increase in volume

Impacts of Sabre prudent views

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Possible outcomes

Sabre current cautious approach is correct

- Claims and other cost inflation leads to market margin compression
- This leads to material price increases
- Sabre has already taken significant pricing action, and will therefore be able to grow margins or volume

Sabre current view is too cautious

- Data will demonstrate too much prudence in pricing assumptions, allowing prices to be reduced fuelling growth

- Timing on either scenario is difficult to assess and a range of GWP outcomes therefore remain possible
- Sabre will continue to maintain a cautious stance & only return to GWP growth at the appropriate time

Summary and outlook

Geoff Carter

Summary

We remain focused on our long-term and well established strategy; prioritising underwriting profitability over premium volume and centred on a mid-70% COR target

Signs of market price increases but not yet enough to close the jaws between claims and premium inflation

We are comfortable with our rating on new/renewal business with volumes increasing in late 2019 into 2020

If market conditions persist we will be seeking to move lower in our COR corridor, ahead of more material volume growth if market pricing corrects more sharply

COVID-19 impacts and actions

Very aware of the wider economic and societal context within which we are reporting these results

We intend to continue employing all of our colleagues on full salaries

We do not believe we will need to take direct advantage of any of the Government support currently available

Supporting smaller supplier and local stakeholders through this period, including offering colleagues paid leave each week to support NHS or other volunteering

COVID-19 impacts and actions

Likely short term reduction in claims frequency as less miles being driven

Potential subsequent increase in claims cost if parts are hard to source, body shops are not able to operate and a risk of new claim trends emerging .

We have a nimble, expert and focused claims team who are able to rapidly adapt processes to the emerging environment

Risk of wider economic influences impacting – e.g. An increase in policies being cancelled if customers become financially stretched or increase in exaggerated claims

Possible COVID-19 costs impacts

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Possible cost inflation factors

- Parts availability & cost
- Bodyshop capacity - during and post social distancing
- Increase in miles driven post social distancing
- Inability to purchase replacement cars increases mobility costs
- Increase in theft / vandalism claims
- Financial stress increases propensity for smaller PI claims
- Increased loss of earning claims
- Poor behaviour from claims management firms

Possible cost reduction factors

- Short term reduction in claims frequency

Sabre Strategy

- These are SHORT TERM impacts not factors that influence our view of claims inflation

COVID-19 impacts and actions

The vast majority of our staff are now working from home. Appears to be working efficiently but operational pressures may emerge

We will look to prioritise essential workers claims if required

We are taking a sympathetic view towards some risk detail changes – e.g. Taxi drivers becoming food delivery couriers

We have carried out extensive scenario modelling on potential impacts

Investment Case features in market conditions

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Consistent and stress tested strategy that delivers consistent profitability within a relatively narrow band across the motor market cycle

Absence of debt and strong capital generation supports an attractive dividend across the market cycle

Vast majority of earnings generated from underwriting profits on a mandatory product. Provides protection against environmental and regulatory interventions

Little dependence on investment income to drive profitability

Dividend decision in light of COVID-19 impacts

Extensive scenario modelling carried out, including impacts of very significant increase in policy cancellations.

Under reasonably foreseeable scenarios it is highly unlikely we would undermine our capital base

More extreme and long lasting scenarios more likely to impact future years profitability and dividends

We have considered recent PRA and EIOPA communications and concluded that paying the ordinary dividend at this stage with a potential return of surplus capital later in the year is a suitably prudent position

Outlook – Pre COVID-19

Premium outturn for the year will depend on market conditions. Central base case of margin enhancement before potentially modest growth

On track to deliver earned COR very slightly above long term target ahead of this returning to a lower level in 2021

Continued strong capital generation which we will use to fund growth, absorb unexpected cost increases and support dividends

Having covered (and continuing to cover) claims inflation, we are well-positioned for margin and volume growth as the market turns

Outlook – Post COVID-19 impacts

Premium outturn for the year uncertain. Reduced car sales and customer behaviours may drive lower new quotation volumes

Risk of some competitors chasing lower quote volumes through price discounts &/or reducing prices due to lower, temporary, claims frequency.

May set back cycle turn by 12months?

Sabre will continue to price rationally and maintain COR our target corridor. Possible "tale of 2 halves" with excess profitability in H1 unwinding in H2

BEST GUESS: COR slightly above long term average and premium income +/- 10% YOY

Q&A

Geoff Carter
Adam Westwood
Trevor Webb
James Ockenden

Appendices

Reconciliation to KPIs

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Adjusted Profit Before Tax

	2019 £'k	2018 £'k	2017 £'k
Profit before tax	56,479	61,363	55,512
Add:			
Amortisation of Intangible assets	-	501	887
Exceptional items	-	-	7,542
Adjusted profit before tax	56,479	61,864	63,941

Adjusted Profit After Tax

	2019 £'k	2018 £'k	2017 £'k
Profit after tax	45,711	49,568	45,343
Add:			
Amortisation of Intangible assets	-	501	887
Exceptional items	-	-	7,542
Tax on exceptional items	-	-	(484)
Adjusted profit after tax	45,711	50,069	53,288

Reconciliation to KPIs

Net Loss Ratio

	2019 £'k	2018 £'k	2017 £'k
Net insurance claims	**101,990**	97,861	92,912
Less: Claims handling expenses	**(7,558)**	(6,536)	(6,044)
	94,432	91,325	86,868
Net earned premium	**183,238**	188,235	186,866
Net loss ratio	**51.5%**	48.5%	46.5%

Expense Ratio

	2019 £'k	2018 £'k	2017 £'k
Total expenses	**32,507**	35,191	34,994
Plus: Claims handling expenses	**7,558**	6,536	6,044
	40,065	41,727	41,038
Net earned premium	**183,238**	188,235	186,866
Expense ratio	**21.9%**	22.1%	22.0%

Combined Operating Ratio

	2019 £'k	2018 £'k	2017 £'k
Total expenses	**32,507**	35,191	34,994
Net insurance claims	**101,990**	97,861	92,912
	134,497	133,052	127,906
Net earned premium	**183,238**	188,235	186,866
Combined operating ratio	**73.4%**	70.6%	68.4%

Reconciliation to KPIs

Solvency Coverage Ratio – Pre Dividend

	2019 £'k	2018 £'k	2017 £'k
Solvency II net assets	**127,086**	130,019	97,873
Solvency capital requirement	**59,495**	60,995	61,087
Solvency coverage ratio	**213.6%**	213.3%	160.2%

Solvency Coverage Ratio – Post Dividend

	2019 £'k	2018 £'k	2017 £'k
Solvency II net assets	**127,086**	130,019	97,873
Less: Final dividend	**(20,250)**	(32,000)	-
Solvency II net assets (post dividend)	**106,836**	98,019	97,873
Solvency capital requirement	**59,495**	60,995	61,087
Solvency coverage ration – post dividend	**179.6%**	160.8%	160.2%

Reconciliation to KPIs

Return on Tangible Equity

	2019 £'k	2018 £'k	2017 £'k
IFRS net assets at year end	267,417	265,148	231,993
Less:			
Intangible assets at year end	-	-	(501)
Goodwill at year end	(156,279)	(156,279)	(156,279)
Closing tangible equity	111,138	108,869	75,213
Opening tangible equity	108,869	75,213	55,149
Average tangible equity	110,004	92,064	65,181
Adjusted profit after tax	45,711	50,069	53,290
Return on tangible equity	41.6%	54.4%	81.8%

Return on Opening SCR

	2019 £'k	2018 £'k	2017 £'k
Opening SCR	60,995	61,087	57,852
Adjusted profit after tax	45,711	50,069	53,290
Return on SCR	74.9%	82.0%	92.1%

Disclaimer

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