14 October 2021

SABRE INSURANCE GROUP PLC

Q3 Trading Update

Sabre Insurance Group plc (the "Group" or "Sabre"), one of the UK's leading motor insurance underwriters, today provides an update on trading for the period to 30 September 2021.

Statement from Geoff Carter, Chief Executive Officer:

"Sabre has shown a great deal of resilience during recent challenging times, when our addressable market significantly and temporarily reduced in size. Whilst this has had an anticipated impact on our short-term financial performance, we are very confident about the medium-term and longer-term growth outlook. We are currently working through a number of growth initiatives that we will discuss further at the Full Year results. We are confident that these initiatives, combined with anticipated market pricing increases and an expansion in our addressable market, will deliver growth in FY22 and beyond. By taking the hard decisions to allow volumes to reduce during the recent, unprecedented period, we have maintained our core strengths and are very well positioned to benefit from these opportunities."

Key highlights:

- Pricing discipline retained through extended soft market conditions
- Market-level demand for policies remains subdued due to gradual recovery in number of new drivers, continued soft market pricing environment ahead of FCA pricing reforms, and supply-chain impacted car sales leading to short-term reduction in volumes
- The business remains well positioned to take advantage of anticipated growth opportunities, as a result of both internal initiatives already underway and market tailwinds anticipated in 2022
- Gross written premium for the nine months ending 30 September 2021 was £126.7m(1) (nine months ending 30 September 2020: £139.2m). Net earned premium for the same period was £108.8m(1) (nine months ending 30 September 2020: £127.3m)
- Combined operating ratio for 2021 expected to be towards the upper end of our target 75% – 80% range
- Continued organic capital generation with a solvency coverage ratio of 175% (1) as at 30 September 2021 (30 September 2020: 186%)
- Strong balance sheet with no debt obligations
- Guidance: we anticipate that profit before tax in FY 2021 will be moderately below the range of analysts' forecasts of £41m-£46m but with dividend levels supported by the strength of our capital position. Having maintained pricing discipline, we remain well-placed to grow through a recovering market in 2022

(1) Numerical information not subject to audit

Business Update

Recovery in motor insurance pricing during the third quarter has been slightly slower than we expected as COVID-related restrictions unwind. There have been a range of responses to regulatory changes, such as the upcoming implementation of the FCA pricing review, which we believe has resulted in significant divergence in policy pricing amongst insurers. We have also seen tension across the market between the need to increase rates due to ongoing uncovered claims inflation and the commercial realities faced by many insurers who would lose considerable policy volume if they were to increase prices ahead of the market.

As anticipated, the post-lockdown recovery in market policy volumes has also been relatively slow. This may have affected us disproportionately as our customer-base is, compared to many competitors, indexed more heavily towards new business and new drivers, and so we have seen a temporary COVID-19 driven reduction in our normal target market due to the backlog of driving tests and significant delays in new car registrations, which has a knock-on impact on second-hand car sales. We have chosen not to engage in inappropriate price discounting to chase volume during this period, instead maintaining pricing discipline in order to preserve the strength of the business across the medium-term.

Outlook

We have continued to treat volume as an output from disciplined pricing, not a target, and believe this leaves us strongly positioned to benefit from forthcoming growth opportunities.

Throughout the past quarter, we have seen some further tentative signs that market prices may be starting to correct, however we have not yet seen significant price movements indicative of a market 'turn'.

As we have disclosed previously, we had been writing business near the top-end of our preferred combined operating ratio range pre-COVID and we would expect to deliver results reflecting that position, and the temporary reduction in volume, in the short-term.

Looking further forward, we are working through a number of innovative development projects and expect to continue to deliver strong underwriting results and generate capital while returning to growth. We have not identified any structural market changes that would adversely impact this view.

As well as the initiatives that are currently underway, we see three pricing tailwinds within the market, which we believe should further facilitate organic growth in FY22 and over the medium term, and may be more positive for us than some competitors due to our disciplined approach to pricing:

- **Reversal of 'COVID discounts'** - With claims frequency returning closer to pre-pandemic levels, insurers must unwind 'COVID discounts' applied to policies sold during, or in anticipation of, periods of reduced traffic
- **Cost inflation** - We expect that the market will have to respond to a significant period of cost inflation through price increases in order to avoid significant losses in 2022 and beyond
- **FCA pricing review** - We expect that the FCA pricing review, through which motor insurers will be required to equalise prices for new and renewing business, will have an inflationary impact on new business prices at a market level

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