14 July 2022

Sabre Insurance Group plc

Strong progress against core strategic initiatives; pro-active actions taken in response to evolving inflationary environment

Half-Year 2022 Trading Update

Sabre Insurance Group plc (the "Group" or "Sabre"), one of the UK's leading motor insurance underwriters, today provides an unaudited update on trading for the six months to 30 June 2022.

We have continued to execute our core strategy of pricing for profit over growth, while building resilience through the introduction of complementary business lines. Since our previous trading update in May, the global inflation outlook, along with claims inflation, has changed considerably and we have reviewed the likely impacts across our current policies and all prior-year claims reserves.

Selected unaudited financial information is given below. 2022 figures remain subject to review.

	Unaudited 6 months ended 30 June 2022	Unaudited 6 months ended 30 June 2021	Audited 12 months ended 31 December 2021
Gross written premium	**£91.8m**	£78.2m	£169.3m
Net loss ratio	**71.6%**	44.9%	51.1%
Expense ratio	**27.3%**	29.5%	28.3%
Combined operating ratio	**98.9%**	74.4%	79.4%
Profit before tax	**£4.3m**	£22.2m	£37.2m
Profit after tax	**£3.5m**	£18.0m	£30.1m

Key highlights

- Gross written premium for the six months to 30 June 2022 17.4% ahead of the comparative prior-year period at £91.8m (2021: £78.2m)
- Approximately £22.1m of motorcycle and taxi business written, which given the expected seasonality, continues to be supportive of previously stated outlook of circa £36m combined premium for the year
- Gross written premium on the motor book is approximately 10.6% below the same period in 2021, due to pricing ahead of the market in response to elevated levels of inflation
- We have continued to prioritise pricing policies correctly over growing volume
- Pricing increases year to date at 19% to July 2022, covering forward-looking claims inflation and loss ratio improvement ensuring policies are being written within our target combined operating ratio ("CoR") range
- We have taken pro-active management action in response to the evolving wider economic conditions which will have a one-off impact in 2022 and position the business strongly for 2023 onwards
- Action on reserves, driven by the rapidly evolving inflationary environment, along with the impact on current-year losses, is likely to move the full year CoR to mid-90%'s, before a return to near-normal profitability in 2023
- Despite these developments we continue to expect to pay a dividend for 2022, albeit at a reduced level, before returning to more normal levels in 2023. The balance sheet remains strong with a solvency capital ratio comfortably above our preferred 140% to 160% range

- The Board expects to declare an interim dividend limited to one third of the profit after tax for the period

Inflationary economic backdrop

- In 2021, Sabre's view was that claims inflation was approximately 8%. Sabre priced conservatively through this period, continuing to focus on margin over volume growth
- Claims inflation has continued to increase through the first half of the year. Our early view was that claims inflation reached approximately 10% in the first quarter of the year
- We now estimate that claims inflation has reached approximately 12%
- Overall economic inflation is now anticipated to be at its highest levels since early 1990s
- The increase in claims inflation applies across all of the key drivers of claims cost, including parts, labour, credit hire, paint, car values and availability, and provision of care
- Additional market-wide cost pressures include increase in industry levies and significant reinsurance cost increases at renewal, driven by market-wide personal injury cost and Ogden rate concerns
- Whilst there is evidence of reductions in claims volumes across the market, we view these as insufficient to offset the exceptional levels of cost inflation
- Minimal signs of inflationary market price increases, with movements at start of the year not sustaining with some weak evidence of improvements in recent weeks

Management actions taken – underpins a more normal performance in 2023

- Following analysis of the impact of the exceptionally rapid increase in underlying inflation to 30-year highs, Sabre is reflecting this through an appropriate adjustment to reserves
- Despite significant price increases – of approximately 19% year to date – the current inflationary period will also have an impact on the current-year loss ratio
- Sabre remains committed to its focus on margin over volume growth, and will continue to have a disciplined pricing approach
- Taking this action means performance likely to return to near normal levels (mid-80%'s CoR) in 2023 and around 80% CoR in 2024

Outlook

The exceptional inflation event in 2022 does not undermine our confidence in Sabre's long-term prospects. The introduction of motorcycle and the enhancement of our taxi business has enhanced the robustness of the Group. Along with the significant pricing action we continue to take, the Group is well positioned to benefit from future strengthening of the private car insurance market, whilst building resilience against future market-wide pricing factors.

We continue to anticipate significant increases in market pricing to cover historic and current levels of inflation, which will enhance our competitiveness either later this year or in 2023.

The first half result of a 71.6% loss ratio should not be extrapolated out to the full-year. This is because Covid-19 related pricing discounts are earning out in the first half; bike earned premium will increase in conjunction with seasonally reduced claims and the significant rate increases in H1 across the portfolio will earn through. We anticipate a loss ratio for the second half of the year in the low-60%'s leading to a full-year position of 65% to 70% following this one-off inflation reserve strengthening exercise.

Taking assertive pricing and reserving action now means we anticipate a return towards our normal performance levels in 2023.

The motorcycle and taxi products are developing well and are expected to deliver planned profitability as growth strain subsides. We continue to see opportunities for similar deals in the market.

We continue to project top-line growth for the year supporting our business into 2023 onwards and expect growth to return to the motor book following a significant correction to motor insurance pricing, although the timing of this is uncertain.

Despite these developments we continue to expect to pay a dividend for 2022, albeit at a reduced level, before returning to more normal levels in 2023.

Geoff Carter, Chief Executive Officer of Sabre, commented:

"We have continued to execute on our strategic objectives this year. The strong recent progress in the business will be impacted in 2022 by the need to reflect the current extraordinary inflationary pressures. We believe that taking prudent and assertive action now, in conjunction with our normal pricing discipline, means that we are protecting the underlying profitability of the business, and will allow a rapid rebound to our expected levels of performance.

This performance is being delivered in a very challenging period for the motor insurance industry with expert external commentators anticipating a market CoR of around 114% in 2022, with very little improvement in 2023. Whilst our response to external factors has generated a poor expected result for 2022 by our own standards, we believe our performance will compare favourably to the wider market. Our motorcycle and taxi portfolios are developing well, and we see opportunities for further similar deals.

Given the strength of Sabre's balance sheet and expected increase in profitability throughout 2022 and beyond, we expect to pay an interim and full-year dividend, although the amount paid will be restricted by earnings in the period.

Having reflected claims inflation fully in our prices we are increasingly well positioned to take advantage of growth opportunities when market pricing turns."

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the Company's obligations under Article 17 of MAR. The person responsible for making this announcement is Adam Westwood, Chief Financial Officer.

There will be a call for analysts and investors at 0830hrs. For details, please contact sabre@tulchangroup.com

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