



Transcription

RSA Q3 2019 Trading update

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07 November 2019



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PRESENTATION

Operator

Welcome to the RSA Q3 2019 trading updates. Throughout the call all participants will be in listen-only mode and afterwards there will be a question and answer session. Just to remind you this conference call is being recorded. Today, I'm pleased to present Stephen Hester, Group Chief Executive and Charlotte Jones, Group CFO. Please begin your meeting.

Stephen Hester

Good morning, folks. Thank you for joining us for our third quarter trading update. Normal format. I'll just introduce; Charlotte will take you through the limited numbers that we've provided today and then obviously we will take any questions that you might have. And as you know our IR teams are available to you during the day should you have any supplementals. As you can see from the release that we put out, we are pleased; I think I'm actually very pleased with the progress year to date in 2019. Clearly, from a shareholder standpoint, the key element is that underwriting profit is strongly up but also in all the different categories and Charlotte will go over that.

The results in absolute terms, we believe, are strong, but they are strong because our plans were also strong. We had planned to improve the company and so what we're pleased about is that our plans are, at least for the first nine months of this year, coming about. We're inevitably going to be cautious because we'd like to finish the year in the same vein. But October at least is consistent with the progress we've made as well. As you know, our priorities for the company overall are to move our performance levels towards the best in class in each of our regional markets, which we believe has been and will be a rewarding journey for our shareholders. And this year in particular that involved the large amounts of our business that are already performing near the forefront of their industries to keep them going, and indeed we are able to report that and we needed, most importantly, this year to make some corrections in some businesses that were underperforming. And of course, the UK with the clearest element of that and I'm pleased to say that the UK is actually at the better end of our expectations for the year so far. We are very, very conscious it's only nine months, but of course, the third quarter has been something we've tripped up in over the last couple of years. You've seen from competitor results out there, particularly London market and wholesale type results for third quarter has not been without bumps for other people and we feel that that is validating the exit decisions that we made last year in terms of our own strategic line up.

So plenty left to do. Many improvement activities that have gone well, but need to show through in results as we go through the end of the year and into next year. So lots of flaws that we need to improve on. But nevertheless, I think we feel pleased with where we are at this stage.

So, with that, Charlotte do you want to go through what we presented in the numbers?



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Charlotte Jones

Thank you, Stephen. And good morning, everyone, from me as well. Overall, Q3 trends across the group have been consistent with those reported at the half year.

As Stephen said, group profits are up strongly compared to the prior year. There are improvements in large loss and attritional loss ratios in every region and our capital position remains strong with the Solvency II coverage ratio above our target range.

So if I turn to some of the details. I'll start with the top line. Regional premium trends in Q3 were comparable to the first half. Group net written premiums of £4.9 billion year to date were flat overall compared with the prior year and in line with our plans. If I just go through the regions: In Scandinavia premiums grew by 2% on an underlying basis. Within that, Personal Lines premiums were up 1% with rate and retention ahead of our plans. Swedish Personal, our most profitable business, saw underlying growth of 3%, driven by both Motor and Household.

In Commercial Lines premiums were up 3%. Higher rate was partly offset by lower volumes and we've seen a particularly good performance in Swedish Commercial this year, driven mainly by Motor. Across the Atlantic in Canada, we continue to experience 'hard' market conditions. This is helping us to secure rate increases ahead of our plans across most lines of business. Overall growth was 4%, with Personal Lines premiums up 6%. Rate and policy counts were both up in Johnson which has reported strong organic growth of 8%. Commercial Lines premiums decreased by 3% in line with our plans. Rate increases of 9% as well as other portfolio and underwriting actions drove volume reductions of 12%.

For UK and international, premiums were down 3% on an underlying basis. UK Commercial premiums were broadly flat excluding the exit portfolio with lower retention reflecting the pricing and underwriting actions taken. One area we're particularly pleased with is our regional broker business where we have seen continued momentum in Q3 with strong new business and retention. In UK Personal, premiums were down continuing the trends reported half year as we continue to hold our pricing discipline. Despite this, it's been encouraging to see the progress we've made in the first half on new business in More Than Home, which has continued in Q3. Ireland and the Middle East premiums continued first half trends, with growth in Ireland driven by a strong personal Motor performance and lower premiums in the Middle East, reflecting challenging economic conditions.

Moving now to profitability. Operating profit was up on the Q3 year to date last year, including and excluding the impact of exits. The combined ratio improved and investment income was slightly lower, as guided. Group weather costs were 2.6% of net earned premiums, excluding exits, which was a little below the five-year average. Total group weather was 2.7%, which was two points better than the prior year. This was supported by better Canadian weather in the third quarter and weather conditions remaining benign in UK and International. Large losses improved to 9.6% on an ex exits basis, with improvements in every region. This was driven by lower large losses in the UK, where the continuing book has performed in line with expectations year to date. The attritional loss ratio improved by around a point with progress made across all our regions. Prior year developments were slightly lower than last year, but in line with the trends that we discussed at the



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half year. Within this, the UK absorbed around £15 million of adverse developments on a post-tax basis, driven by the revision of the Ogden discount rate.

The written controllable expense ratio fell slightly overall, although the UK and international increased as planned, due to reduction in premiums. We have now commenced a cost reduction programme in the UK, which we will describe in more detail in February with our full year results. But in overview, the programme will target cost opportunities worth around 2 points in the UK combined ratio on a full year run rate basis by 2021. Towards this we have booked £8 million of restructuring charges below the operating results in Q3. Our exit portfolios generated a modest further loss in the third quarter, taking the year to date loss to £35 million. As a reminder, around 90% of the net earned premium has now lapsed.

Finally, turning to the balance sheet and capital. Tangible net assets of 3.2 billion were up around 10%. This was driven by positive mark to market gains following further yield declines, IAS39 [pension valuation gains and year to date profits.

The group's Solvency II coverage ratio was 169%, compared to 167% at the half year. The main Solvency II movements were good underlying capital generation, partly offset by a notional dividend accrual and net adverse market developments, with the primary driver of the market movements being falling sovereign yields. Both the major UK pension schemes continue to be at their caps at the end of Q3. And the IAS39 pension gains in the quarter have increased the surplus over the caps.

We are pleased to report that our core Tier 1 ratio increased by 3 points to 107%. And balance sheet unrealised gains increased by 75 million in the third quarter, driven primarily by lower bond yields. So in overview, we're pleased with the group's performance to date and remain resolutely focused on closing out the year successfully.

That concludes my run-through of the Q3 numbers and I'll now hand back to Stephen

Stephen Hester

Thank you very much, Charlotte. Obviously we will go over to questions in a second, as I echo Charlotte's comments. We're pleased with the results. But I think it's clearly is very important for us all to remember that we're primarily pleased because we had crappy third quarter results for the last two years and we haven't had this time. We're not trying to move people's numbers up. What we want to do is to re-establish a reputation for delivering and not to disappoint people and so we are very focused on, if you like, establishing a strong base of performance and then hopefully getting some momentum into 2020 in terms of our underwriting results.

So with that, let's move to any questions. Thank you very much.



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Q&A

Operator

Thank you. If you wish to ask a question please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask your question. If you find it's answered before it's your turn to speak, you can dial 02 to cancel. So once again, that's 01 to ask a question or 02 if you need to cancel. There will be a brief pause now whilst we register your questions.

Our first question comes from the line of Andrew Sinclair of Bank of America. Please go ahead. Your line is open.

Andrew Sinclair

Thank you and good morning, everyone. A few from me if that's OK. Firstly, could you give us an update on your reinsurance protections? I think it maybe started to get close to some protections in your regional geographic pillars at half year. I just wanted an update on that. Secondly, bond yields have ticked up a little bit since you gave your last investment income guidance. Is there a bit more fat in that guidance now? How should we think about that? And thirdly, just wondered if you could give us an update on your exposure to some of the various global Nat Cat events that we've had recently, particularly the California wildfires and typhoon Hagibis, which are perhaps more Q4 events. Thanks.

Stephen Hester

Thanks, Andy. In a second I'll ask Charlotte to do the bond yield bit. But on your other two: In terms of reinsurance, mainly because it's been a benign weather year, I think we think the year to date, so far, has been sort of neutral in luck terms, i.e. we've been done better on weather than we thought and worse on PYD than we thought and the two roughly balance each other out. But as a result of that pattern the GVC, which is our aggregate reinsurance, seems unlikely to trigger this year unless we have a terrible December, and we're not therefore protected against terrible December weather. I think that's the major exposure. On the other hand, we are into the aggregates on large losses in Denmark and in Canada and therefore at least in those two areas large losses should get slightly better in the fourth quarter.

On your Nat Cat subject, basically we haven't had material impact from the various Nat Cats that you mentioned. Forest fires, obviously in California. Dorian, I think, was the most expensive to us, which was 5 million or so booked into the UK London market business and a similar amount into our Canadian business because it had a tail on the East Coast of Canada. And negligible amounts, obviously, you can be surprised sometimes with late reported follow lines, but nothing material from the various Japanese things.

Charlotte, do you want to talk about bond yields?



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Charlotte Jones

On the bond yields: a marginal increase, and as I said already, the investment income for the period very much in line with the guidance we've given. There is no material change to the guidance at this point and we will cover that more formally at the end of the year. So a marginal change, but very marginal.

Stephen Hester

Also note that although bond yields are better now than they were six weeks ago, they are still worse than they were at the half year. So, the issue of bond yields is really going to hurt us on investment income in 2020 and 2021. It's not going to peak through materially this year.

Andrew Sinclair

Makes sense. Thank you very much.

Operator

Thank you, our next question comes from the line of James Pearce at RBC. Please go ahead. Your line is open.

James Pearce

Morning all and thanks for taking my questions. The first one was on the improvement trends that you're seeing in your attritional loss ratio. I was just wondering if you could provide a bit more colour on where you are seeing those improvements. Which regions, which lines of business and how you expect those to evolve going forward? The second one is just on the UK. So it looks like your underwriting exits will largely be completed this year. I guess going forward, do you think it will be primarily cost cutting that gets you closer to your UK ambition, given the cost reduction programme that you've mentioned this morning or do you see further improvement in the underwriting result? Thank you.

Stephen Hester

Okay, thanks for those two questions. On the attritional loss ratios: If I go round our different businesses, clearly in Canada, the improvement is primarily driven by the 'hard' market and the attritional ratios need to improve particularly because what we want to do is to fund higher weather losses in the future so we're not thinking that attritional all goes to the bottom line, but obviously, we're hoping some of it will do. And I think what's been quite pleasing in Canada is the Auto result has sharply improved and actually amazingly in the first nine months of the year, I think our Auto COR is better than Intact's



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Auto COR, which doesn't often happen. And the headaches in Canada have probably been around Property, which again Intact reported yesterday and noted their attritional has stepped out because there seems to be some market-wide issues on water and fire, but nevertheless the net in Canada has come in year on year and I think will come in further once the various pricing and underwriting actions run through next year.

Moving to UK and International. We've had very sharp improvement in Ireland. So Ireland isn't improving anymore because Ireland is strongly profitable. Middle East, I think, has got slight further improvements and again that's a very good level and so obviously our main focus has been in the UK. In the short run, the attritional gains are mostly in the old GRS business, the London Market and European business. Some of which we exited and some of which we re-underwrote which produces lower attritionals. Household has behaved itself. Motor isn't yet behaving itself. And I would say in the Commercial Property lines we're not really trying to improve attritionals; we'd just like to do more business there, if we can.

And then when we move over to Scandinavia, the improvement is relatively modest because most of our Scandinavian businesses are very profitable. And so we'd rather write volume than become even more profitable. The one exception to that is Denmark. Although of course, Denmark Personal is in good shape. Denmark Commercial is mostly a large loss issue, but is also an attritional loss issue, but our chance to fix that happens mainly on 1/1, so we can't do much intra-year about that. So that's some attritional colour for you.

On your question on our UK domestic business: I would say that is our plan that, as we go into next year, the major re-underwriting will have taken place, although obviously it earned through at various different paces. There will always be underwriting actions of one sort or another. It's a big business with lots of different business lines and there will always be different things that we need to do. However, the underwriting and loss ratio-related things that we need to do in the UK post this year are going to be mainly focused on getting Motor operating better in both Personal Lines and Commercial Lines because that's our main loss ratio headache at the moment. And in addition to that, we clearly need to sustain the position in our other businesses. We'd like to get some growth in those areas where profitability is good and also just frankly make sure that next year, we can repeat the avoidance of bad things in the areas where we have had bad things historically.

Cost cutting is an important ingredient of the UK getting towards its best-in-class cost targets, as Charlotte mentioned. We have started a programme, which hopefully will reach a full run rate once we get to 2021, which should help that. So it's a bit of both. It's a bit of mix. It's a bit of loss ratio and it's a bit of costs that we hope to continue to improve the UK results.

James Pearse

OK, brilliant. Thank you.

Operator

Thank you. And our next question comes from the line of Johnny Irwin at UBS. Please go ahead. Your line is open.



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Jonny Urwin

Hi there, good morning. Thanks for taking my questions. Two, please. So firstly, the large losses are still a bit elevated. I know they're coming down year on year but remaining at quite a high level. What's the message on that? Is it higher because the aggregate protections are kicking in now for parts in Q4 and the underwriting actions will start to work through presumably from 2020? That's the first one. And then secondly, could you just give us a quick update on where it's pricing versus claims inflation in Canada across lines and on UK Home, please? Thank you.

Stephen Hester

Okay, thanks for those questions. What can I say about large? I'll just be really clear. Our large performance is bad in Canadian Commercial and Danish Commercial. It was bad last year and it's bad this year. It happens to be that the third quarter was less bad than the first half. So I hope that's a trend. We believe in both businesses that we have taken the underwriting and pricing actions that will see 2020 significantly better, but obviously that's got to happen. And so we can't take it for granted. But there's absolutely no doubt that in Danish Commercial and in Canada, we are not performing well so far this year, albeit the third quarter with hopefully the start of a more positive trend.

Very pleasingly, the area that has killed us because of its relative size on large losses in the past was clearly UK or in particular the international businesses that are booked into the UK and through a combination of re-underwriting the continuing business, exits, – maybe some luck, or maybe not, who knows, but time will tell – that has performed almost precisely in line with our plans this year, so far. So there, we feel we are in much better shape provided that what we have experienced is what we will keep experiencing rather than a moment of luck. So obviously you need some time to make sure that you're not declaring victory too early. So that's how I would think about large losses in the different places. I think it continues to be our view that something like 9% is the sort of number we ought to run out, let's say next year, versus the 9.6% of large losses on a group level that we have so far this year.

I hope the fourth quarter will be better and we might be better than 9.6% for the year, but, obviously let's see, two months left to go.

On your pricing versus inflation question, I would say in Canada the intent is for pricing to be ahead of claims inflation and therefore for loss ratios to improve. As I mentioned earlier on, that intent has so far translated into reality in all apart from the Home Property those Domestic Property lines where the market as a whole – and, as I say, Intact gave numbers yesterday, which since they are three times bigger than us in Canada, are a good bellwether showing their attritionals stepping out and our attritionals have also stepped out, I think slightly less than that, but nevertheless. And on the other hand, in response to seeing those trends earlier in the year, we have been strengthening our household pricing further and so our belief is that we will be on top of that as it earns into next year, but that's the only area where the market as a whole, I think, has had a setback in terms of loss ratios in Canada, albeit that the rating should overcome that setback.

And in UK Domestic Home, I think probably pricing is broadly in line with claims inflation as we see it at the moment. Obviously it's hard to tell over a short period of time because we've also had a benign weather year and I don't think we



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believe that changes any of the long-term weather patterns. But you just have to be slightly cautious about it, but that's how we would see it.

Jonny Urwin

Thank you.

Operator

Thank you. And just as a reminder to participants, if you do wish to ask a question please 01 on your telephone keypads. Our next question comes from the line of Greig Patterson at KBW. Please go ahead. Your line is open.

Greig Patterson

Morning everybody. Three questions all around UK retail motor. I wonder if in terms of the third quarter you can give us what you achieved in terms of rate, mix and volume. The second question is, you've got a stated aim to achieve critical mass in UK retail motor and you made some comments about More Than's new business growing in the first half and they've continued. I struggle to see how you would gain critical mass in the face of the current negative jaws we're seeing in the market. So I wonder if you could just close that circle; explain what the strategy is there and how you are going to gain share in the face of headwinds without losing the loss ratio. And then just finally, in terms of UK retail motor, you had a major push in telematics and I think it's ramped up its share of your UK retail motor quite significantly up to about two years ago and you backed off. So just in terms of your objective to achieve critical mass, I was wondering how much of that is telematics, how much is that non-telematics? If you can just sort of give us some colour there? Thank you.

Stephen Hester

I am not able to give you rate, mix and volume just because I don't know what it is. And I'm looking at Charlotte to see if she does. But just taking the subject more broadly before coming back to that: I want to be really clear, we are, today, not good at UK Motor. In particular, we are not good at UK Personal Motor and we need to get good before we get bigger. We are in the process of getting better, a key element of that is technology, where our technology is sharply improving and I believe that we will have set the conditions in order to have competitive loss ratios with the market, which would then tempt us to start getting bigger as we go into 2020. But it is much more important to me that we get competitive loss ratios and capabilities behind that before expanding it and so we have a first interest in jumping big into something we're ill-prepared to compete in and it's not important for us and you're absolutely right that, a), there are some tough conditions in Motor, and b), there is obviously some sort of shadow of the FCA dual pricing discussion over the Personal Lines market in the UK. And so I don't think you would expect us to expand without knowing what's going on there. So don't worry about us blowing our brains out in UK Motor at a stupid time, we have no intention of doing so whatsoever.



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On your smaller point on Telematics, we still are a major force in the UK Telematics market. The only thing I would say is that I think that we had a lead in that market, there are other people who have come in and so it's less profitable than it was, which is why we've slowed down, in fact, our volume has slightly dropped because we don't want to make losses. Is there anything-?

Charlotte Jones

Yes, I've got a few stats on the UK Personal Motor. I think in terms of rate, it is sort of high single-digit as we've held the discipline.

Greig Patterson

Good. Sorry, could you speak up a bit, please?

Charlotte Jones

Sorry. Yes, so, on the rate side, we would say it is high single-digit increases; we've held the discipline. Volumes, are sort of mid-teens and overall premiums are a little down.

Greig Patterson

Did you say volumes are mid-teens?

Charlotte Jones

Mid-teens, yeah.

Stephen Hester

Mid-teens down.



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Greig Patterson

Oh, mid-teens down. And mix effects? Others have seen quite dramatic negative— You know, when they've tried to hold rate], they've seen their average premium drop quite materially in terms of mix. Have you—?

Stephen Hester

Well, I think it doesn't really— I don't think it works like that because in a sense you apply a rate to different categories of risk. So the average premium size is a choice as to how risky a driver you want. It's not something that is shifted by rate. What happens when you put rates through is you lose volume if your rate is ahead of the market and Charlotte's mentioned that's what's happened to us. So to be really clear, UK Personal Motor in totality is well under 3% of our premiums. There are other people you should worry about first, before worrying about us on UK Personal Motor.

Greig Patterson

Just one last question. You said the net premium was down, how much was it down? Did you give that number?

Charlotte Jones

I didn't give that number, no.

Greig Patterson

Alright. No problem. You're willing to give it? Can you give the number, or not?



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Stephen Hester

You're characteristically going to a level of detail we were unprepared for, for a third quarter IMS.

Greig Patterson

No, no, don't worry. I'll catch up.

Charlotte Jones

We'll catch up with the IR team later.

Stephen Hester

Thank you, next question please.

Operator

Thank you. Our next question comes from the line of Dom O'Mahony of Exane BNP Paribas, please go ahead. Your line is open.

Dom O'Mahony

Good morning. Thank you for taking my questions; three, if that's alright. First is on the competitive environment in Canada. The rate environment seems very positive and certainly Intact gave some positive noises around that in 2020, but I note that Intact has been flat to shrinking in Personal Motor in Canada for a while. They seem to be modestly growing now, even must be coming towards the end of their turnaround. I'm wondering whether you're seeing any intensification of the competitive environment in Canada. Second question on Denmark. You've been clear that Danish Commercial is the tricky bit of Scandinavia. You've got new management in Scandinavia, as I understand it. To what extent is there real heavy lifting to be done on Danish Commercial? I'm just trying to work out how sharply things could change at the 1/1 renewal. And then finally you highlighted the increase in unrealised gains balance. I think close to 20% increase in the unrealised gains. Is there a relatively simple read-through into a potential increase in the pull to par dimension of capital generation? Thank you.



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Stephen Hester

In a second I'll ask Charlotte to do the pull to par bit. On your first two questions. On the competitive environment in Canada: I don't think there is any noticeable change in the competitive environment, either actual or imminent that we can see. It's obviously competitive. But the whole market needs to improve its underwriting results and therefore it is supportive of rate increases. We are expecting elevated rate increases to continue into next year. At the moment our plan is that they would moderate in the second half of next year, i.e. you'd come back to rating in line with inflation in the second half of next year. Obviously, we'll see whether that's what actually happens, but that's our planning, it's our function, but there's enough rate in the works, I think, to take us into the first half of next year a rating above inflation for the market as a whole.

Obviously, the way we think about the competitive environment and how are we doing relative to other people – my most important measure on that is our combined ratio and I'm pleased to note that we are, at least in the first nine months of this year, in aggregate level pegging with the market leader. But when you look into the mix, our direct personal lines business, which is our biggest business in Canada, Johnson, is doing fabulously and our Commercial Lines business is doing poorly at the moment financially so we have a particular mix in there. And fortunately, we are responding to that by shrinking volumes, not necessarily premium because price increases are going the other way, but shrinking volumes in our broker businesses and significantly increasing volume in our Johnson business to further improve upon our competitive strengths.

On your question on Denmark Commercial, and as I say, let's be clear Danish Personal Lines is going well for us. But in Denmark Commercial lines, it's a bigger business for us than in Personal Lines, whereas in Sweden it's the other way around. You mainly get one time a year to change the make-up of the Commercial Lines business because it's very, very heavy 1/1 and obviously I don't know how this 1/1 will go, but in concept we are probably going to shrink the volume by mid-single-digits, maybe slightly more than mid-single-digits amounts to hopefully finish what we need to do on the underwriting front. There will be price increases as well. But this is more about targeted segments of the book than market-wide pricing that we need to do and hopefully that will put us in much better shape next year. Although obviously one has to see the year unfold in order to know that that's the case but clearly, honestly, when you dilute – Danish Commercial isn't that big a part of the Group – so when you dilute that across the Group it doesn't really move the dial enormously in terms of top line.

Charlotte, you want to take the other pull to par question?

Charlotte Jones

So the AFS reserves, as I said earlier, have gone up 75 million this quarter, so it now stands at just over 500 million and that's up quite considerably on the last year-end, around 255 million. Nearly all of that relates to the bond portfolio and I think what you're seeing is that— what we're thinking is that higher level of AFS reserve combined with the very flat yield curves is going to push out the pull to par effect of that unwind over a longer period of time. So that's how we see it, seven to eight years for it to fully unwind, but I think we would still expect that approximately half of it would unwind in the next three years, but of course, it really depends on the continued shape of the curve and how that moves as we go forward.



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Stephen Hester

But that's another way of saying that some of you who are at ridiculously high dividend levels need to listen to what we're saying. Those of you who are at sensible dividend levels, we're not saying anything different on dividend at all.

Next question.

Operator

Thank you. The next question comes from the line of Abid Hussain of Credit Suisse. Please go ahead, your line is open.

Abid Hussain

Hi, morning all. Thank you for taking my questions. I've just got two questions left. Firstly, just coming back to your attritional ratio, in particular in Scandinavia. I think if I'm right, if I look at your half year and half year trend, the attritional ratio had deteriorated. But you're suggesting you've seen an improvement year to date, which implies that in the third quarter, there was a material improvement, but you seem to suggest that there was only a modest improvement. I'm just trying to square that comment. Did we actually see a big tick up in the third quarter for attritional loss ratio in Scandinavia. And, if so, what was the main driver behind that. And then the second question is on your restructuring charges, so you expect in the UK to achieve the two percentage point cost reduction by 2021, I think you said. I'm just wondering what's your— do you have an updated guidance on the expectations for the total restructuring charge over the rest of this year and going to the next year?

Stephen Hester

Thanks for your questions. I wouldn't over-focus on quarterly attritional loss ratios because when you get later in the year like this, your end of quarter reserve review resets attritional loss ratios looking at the whole year and so you can have reserve movements that actually would properly belong in Q1 and Q2, which means in any quarterly period late in the year, the specific quarterly attritional movements tend to be drowned out by year-to-date true-ups, and so if you take away that noise, there was nothing particularly new in the third quarter in Scandinavia attritional ratios. And as I say, with the exception of Denmark we're not even wanting to improve Scandinavian attritional ratios. It's only Denmark that we really want to, in Danish Commercial. And I think that's going to be more for next year.

So the attritional ratio is modestly up year on year, you're right, arithmetically that has a third quarter impact. But some of that relates to the whole year. And on the restructuring charges, as we said, we're not going to talk about that in detail until we properly can sit down with you and go through what's happening in the UK business on at the full year, so for the moment, all I think we'd say is on average, our restructuring charges over the last number of years have been something



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like £1.30 of restructuring charge for £1 run rate of profit, which obviously is an incredibly high return on capital and so for now, use that average. I don't even know what the number is because we have to formulate the full programme before knowing what the restructuring charge will be and we hope that we can give you proper guidance in February.

Abid Hussain

Alright, thank you. Thanks for that.

Operator

Thank you. Our next question comes from –

Stephen Hester

By the way, just on that last point, to be clear, I do not expect the restructuring charges to all appear in this year. I would expect a significant proportion to be next year following, if you like, the timing when the accountant simply recognise things in relation to the actions you take.

Abid Hussain

Got it.

Stephen Hester

Sorry, operator, go ahead.

Operator

No problem. Our next question comes from the line of Andrew Crean at Autonomous. Please go ahead. Your line is open.



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Andrew Crean

Good morning, all. A couple of questions. The lower level of prior-year releases, which is, I think, around just under 1% is that a good guide for the future relative to the 3% releases that you are seeing in previous years? And then the second question: I think I heard you right in saying that the attritional loss ratio improved by a point at the nine months. You had, I think, about 1.6 points improvement in large loss; 2.1 points in weather; as I say, one point in loss attritional; a bit better expense ratios offset by perhaps two points less PYD. That would suggest somewhere between 2.5 and 3 points of improvement on the combined ratio. And if that was held to year end, it would certainly lead people, I think, to push the earnings per share forecast up. So I suppose the question I'm asking is are you being a little bit modest in keeping your light under a bushel, understandably given the fact that we haven't got to year end?

Stephen Hester

Thank you, Andrew, very much for those questions. On the PYD outlook: As you know, I've long thought this is an unforecastable number, which is why I sort of lump it along with weather as a sort of luck element. When we analyse what's going on PYD, our belief is that a significant chunk of the lower PYD this year relates to 2018 and you've seen that in a number of other competitors across the market, events which the actuaries hadn't fully caught up with; all the claims people haven't put it caught up with, as the year was closed, and therefore isn't, if you like, a repeating weakness.

On the other hand you do tend to see, if you like, PYD cycles, but when you go through periods of improving underwriting results, PYD improves on a lagged basis and vice versa and so I think we've said consistently that the PYD we enjoyed in the last three years was higher than our expectations which I think was a lagged recognition of the improvements that we've made in attritional loss ratios, particularly over the last five years, and because we had a worse second half of 2017 and 2018, generally, I think you're now seeing the negative lag on that PYD.

So our expectation is that if we were to average over the next – I'm inventing it – three to five years, the PYD for us would lie, I'm going to say in the 1–2 per cent range. So that's, if you asked me to guess, that's what I would guess. But it is no more than that and that's how I think about it. In terms of lights and bushels, I've learned that they are hard to predict as to when it's a light and when it's a bushel and all the rest of that stuff. We genuinely, at the moment, internally are expecting a sort of consensus-type result for this year. We think it's more important to be consistent than it is to stretch to beat consensus, so what we want to do is make sure we've got firm foundations into next year and some of the comparisons that you've just given get quite complex, depending on what you're comparing with.

Our main focus is on the ex-exit number, which is why we are showing the exits number, if you like, separately, we've given it separately, and yet, last year had a very heavy, including exits number and so there's some apples and oranges you have to work through and I think when you do work through that, obviously it depends what the fourth quarter brings, but



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our central expectation is, let's say, in the range of current consensus for the full year. We'll see whether that's what really does happen or not.

Andrew Crean

And am I right in saying that you did say that the attritional loss ratio is one point better at the nine months?

Stephen Hester

No, we didn't say that.

Andrew Crean

Charlotte said it.

Stephen Hester

I don't think Charlotte said that, but from memory I think it's slightly below that. It's not a million miles from there, but it's not quite that, I don't think.

Andrew Crean

OK, great thanks.

Operator

Thank you. Once again to participants, if you do wish to ask a question, please dial 01 one on your keypads now. Our next question comes from the line of Sami from Goldman Sachs. Please go ahead. Your line is open.



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Sami Taipalus

Hi morning, everyone. Just a couple of quick ones. You issued some debt in the third quarter. Could you just comment on what the motivation was for that and what you perceive your remaining capacity to issue debt to be? And then the second question is could we just have maybe an updated view on the FCA pricing review following the communication from the regulator? Thank you.

Stephen Hester

I'll ask Charlotte to talk about the debt, although with the third quarter not first quarter, but on the FCA, I think I talked about that in answer to the earlier question. All they have is a discussion document. I think they said that at the end of the first quarter of next year they will make some proposals, which will in turn be out for consultation. So my guess is we're going to be more sort of halfway through next year before we know where that lands. My guess is it is net negative for profitability for UK Personal Lines writers, which is why for those purposes, I'm pleased it's only a small part of our business. But how much net negative and in what way is impossible to guess at the moment.

Charlotte Jones

And on the debt, the two main debt actions that we have taken this financial year was in May we retired a tier 2 debt instrument and the completion of that. And then I think the one you're probably referring to is in August –

Sami Taipalus

Yeah, sorry that was the one that I referred to.

Charlotte Jones

We raised £350 million five-year senior debt. The driver there general corporate purposes, capital flexibility and no specific purpose in mind but generally, ahead of Brexit, getting additional flexibility was the primary driver.

Stephen Hester

To be clear that wasn't capital. We have no intention of gearing up on debt capital, because I don't really believe that debt capital is real capital. So you shouldn't expect us to do any capital issues.



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Sami Taipalus

And from a capacity perspective?

Stephen Hester

We have capacity, I just don't see the point of it.

Sami Taipalus

No, sorry I don't mean on the capital side. I guess I mean more from regulatory, sorry, rating agency leverage ratio calculation perspectives, et cetera, which I guess the senior would have counted towards.

Stephen Hester

Yeah, but we're not— So no, I don't think the senior counts for anything in any of the rating agency models that we look at. I might be wrong.

Sami Taipalus

I would imagine it counts towards the debt leverage calculation made by the rating agency, so my question is-

Stephen Hester

Well, you're ahead of me. I'm unconscious that it has any impact one way or another

Sami Taipalus

No, I'm not saying it counts as capital, I'm saying I'm guessing it counts towards the debt leverage numbers that the ratings agencies look at. So my question is not about capital. It's about what do you think your capacity is to issue additional debt, any type of debt



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Stephen Hester

I really don't know the answer, but I'm not expecting to.

Sami Taipalus

OK, alright. Great. Thank you.

Operator

Thank you. And as there are no further questions at this time, I'll hand back to our speakers for the closing comments.

Stephen Hester

Terrific. Thank you very much for joining us. Obviously, we are very, very strongly focused on trying to finish the year without accidents, so they may not all be under our control, and to lay a good foundation for next year. We look forward to talking to you in more detail in February, about how the year has gone. Thank you for joining us.

Operator

This now concludes the conference. Thank you all very much for attending. You may now disconnect your lines.