NEWS

RSA Insurance Group plc
Q3 2020 Trading Update[1]

5 November 2020

RSA reports excellent progress YTD 2020, with underwriting profit strongly up

Stephen Hester, RSA Group Chief Executive, commented:

"RSA's run of record underwriting results is continuing. The Group recorded a Q3 discrete combined ratio of 90%[2], despite providing fully for the UK BI Court ruling in September. While COVID-19 has held back our profit overall, RSA's inherent strength and the improvements we have made are driving the business forward in a pleasing manner. The outlook for continued underwriting improvements remains positive."

Trading update

Market conditions

Insurance market conditions were largely unchanged in Q3. While competitive overall, they are accommodating pricing and underwriting actions consistent with sustaining loss ratio gains and improving further in those portfolios needing it.

Premiums[2]

- Group net written premiums of £4,663m were down 3%[3] vs. YTD 2019 (flat[3] excluding the estimated impacts of COVID-19 and in line with our plans).
- In Scandinavia premiums of £1,381m were down 1%[3] reflecting portfolio actions in Danish Commercial Lines.
- In Canada premiums of £1,248m were down 1%[3] (excluding estimated COVID-19 impacts premiums increased 4%[3]).
- In UK & International premiums were down 6%[3] to £1,998m or 2%[3] excluding the estimated impact of COVID-19.
- On 27 October we were pleased to announce an important new bancassurance distribution alliance between Codan, our Danish business, and Nykredit, SparNord and the association of local savings institutions, providing insurance solutions through Codan's existing brand Privatsikring. This alliance gives Codan access to roughly 25% of all bank customers in Denmark, and over the next few years we anticipate additional personal lines volumes in Denmark from this deal of over £100m annually, doubling the size of our current bancassurance book.

Profitability[2]

- Group business operating profit for the first nine months was up, with a significantly improved combined ratio and lower investment income (as guided). This is despite fully reserving for the UK BI Court case in September. Each of our three regions is performing on or ahead of our plans excluding the impacts of COVID-19.
- Underwriting profit components (excluding exits):
  - Group weather costs were 3.0% of net earned premiums (YTD 2019: 2.6%).
  - The large loss ratio was 9.0% excluding the estimated COVID-19 impacts of 1.6 points (YTD 2019: 9.6%)

- – The attritional loss ratio improved strongly overall on all bases, and in each region.
- – The written controllable expense ratio increased slightly overall (though absolute costs were down 2% in real terms).
- – Prior year development was positive though slightly below our plan.

- Investment income was within the range guided at our 2020 Interim Results.
- Exit portfolios (while now largely run off), generated a modest further loss of £6m in the quarter.
- Retention ceiling now reached on Group aggregate reinsurance cover, providing protection for individual losses and catastrophe events over £10m in Q4.
- The second phase of the UK cost programme began in the third quarter, with £14m of charges booked below the operating result in respect of this.

Balance sheet and capital

- Tangible shareholders' equity at 30 September 2020 was £3.35bn (31 December 2019: £2.91bn). The increase was driven by year to date profits, FX, pension movements and mark-to-market gains. Tangible net asset value per share was 323p (31 December 2019: 282p).
- Balance sheet unrealised gains were £446m (pre-tax) at 30 September 2020, an increase of £18m from half year, driven by positive mark-to-market on bond holdings due to declining yields. IFRS pension surplus in the UK was £416m (net of tax), up a further £61m from half year.
- The Group's estimated Solvency II coverage ratio was 159%[4] at 30 September 2020 (31 December 2019: 168%), including accruals for current year dividends and the 2019 final dividend. Excluding this latter accrual, the estimated ratio was 168%[4].

COVID-19 impacts

While the impacts of COVID-19 on RSA are ongoing, we discuss the principal areas affected below with YTD data:

- For the third quarter 2020 non COVID-19 claims frequency was down vs. prior year in a range of 8-36%, mostly reflecting lower economic activity. This provides benefits which have been reflected in premium givebacks and other customer reliefs, as well as partially offsetting COVID-19 related claims costs outlined below.
- Since the half year reporting there have been no material increases in COVID-19 related claims reserves outside those relating to business interruption claims in the UK. In September we increased claims reserves (IBNR) by £62m net of reinsurance in respect of the judgment from the FCA Test Case published on the 15 September 2020 and allowing for the latest position on the Group Volatility Cover (GVC). The majority of this has been booked as large losses (c.75%) with the remainder booked within the attritional loss ratio. RSA and the other parties to this case have filed an appeal to the judgment to the Supreme Court under a "leapfrog" appeal process, the results of which are expected later this year. Our estimate of the gross impact of the initial ruling which we published on 15 September has been revised down by c.£20m[5] which reduces the likely claims on reinsurers but has little impact on the net cost absorbed by RSA as outlined above. To date there has been no material increase in claims activity related to COVID-19 "second wave" in our various territories.
- There is also a COVID-19 effect on premium income for customer reliefs and various other direct economic impacts, which has so far totalled c.£156m YTD.

Footnotes:

[1] This announcement is a trading update only, and doesn't constitute an interim report

[2] Excluding UK&I exit portfolios

[3] At constant FX

[4] The Solvency II capital positions at 30 September 2020 are estimated

[5] Gross numbers are net of specific quota share and facultative reinsurance impacts.

[6] The Group uses Alternative Performance Measures, including certain adjusted measures, to help explain business performance and financial position. These measures have been calculated consistently with those presented in the condensed consolidated financial statements for the period ended 30 June 2020 and reconciliations will be provided with the consolidated financial statements for the period ended 31 December 2020

Notes:

[1] The record date for the interim ordinary dividend (announced on the 15 September 2020) will be 13 November 2020 and payment date will be 4 December 2020.

[2] We also reiterate our continued intention to catch up on the 2019 final dividend payment (which was withdrawn in April 2020) on the basis set out in our 2020 Interim Results.

Enquiries:

Investors & analysts

Charlotte Jones
Chief Financial Officer
Tel: +44 (0)7788 578067
Email: charlotte.jones@gcc.rsagroup.com

Matt Cohen
Head of Investor Relations
Tel: +44 (0)7967 343633
Email: matthew.cohen@gcc.rsagroup.com

Press

Natalie Whitty
Communications Director
Tel: +44 (0)7584 342052
Email: natalie.whitty@gcc.rsagroup.com

Alex Jones
Head of News & Public Relations
Tel: +44 (0)7769 287291
Email: alexander.z.jones@uk.rsagroup.com

Other information
LEI number: 549300HOGQ7E0TY86138.

Conference call for analysts and investors
A conference call for analysts and investors will be held at 08:30am on Thursday 5 November to discuss the Q3 Trading Update. Participants should pre-register using the following web link:

https://aerp.arkadin.com/e-f5b947b86aaf6cec2094f60fde72ee565ee63659defc862d7646686577109e8ae507020a4497e61629503527a7f9ec359690fbbc130cdcbae9c74483/2020-rsa-q3-trading-update

A recording of the call will be made available via the Company website (www.rsagroup.com) after the call.

Important disclaimer
This press release and the associated conference call may contain 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. Forward-looking statements in this press release are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this press release shall be construed as a profit forecast.