

BofAML BANKING & INSURANCE CONFERENCE



RSA Insurance Group: Path to Performance

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TODAY'S PRESENTATION UPDATES ON...

1

What RSA will look like as we complete the 'turnaround' plan

2

How we have thought through what needs to be done

3

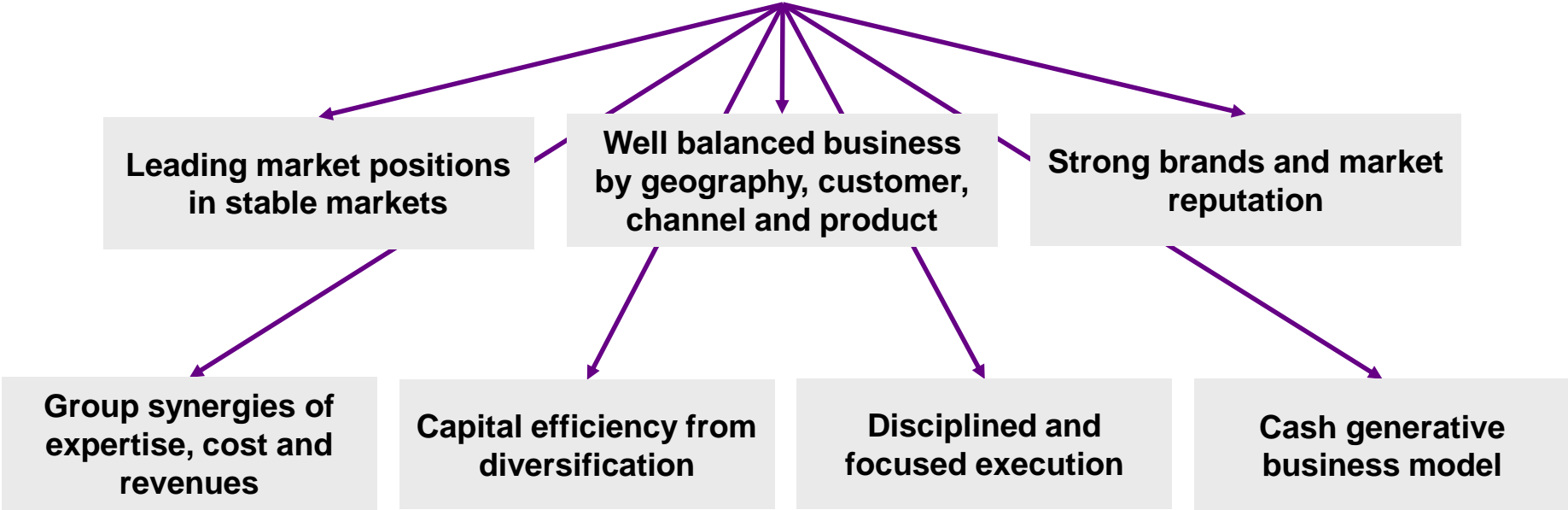
What we are doing and planning to do to drive performance

FOCUSED; STRONGER; BETTER

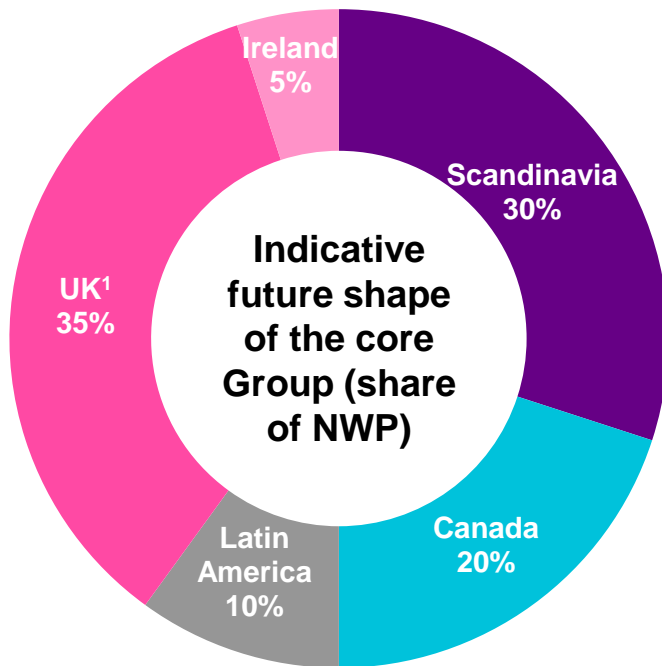
Our ambition for RSA:

- 1** A leading international general insurer focused on Northern developed markets, plus a growth business in Latin America
- 2** Aiming to compete only where we can win. And to win where we compete
- 3** Well capitalised, targeting sustainable attractive returns
- 4** Strong operational delivery; transparent and easy to understand
- 5** Enduring customer appeal

WHAT WILL MAKE RSA ATTRACTIVE



RSA'S CORE MARKETS – BUILT AROUND LEADERSHIP POSITIONS



Scandinavia

Market size²: £21bn

Top 4 market position overall

Only multi-national insurer in the region

51% Personal, 49% Commercial lines

Principally direct distribution

UK

Market size²: £42bn

Top 4 market position overall

45% Personal, 55% Commercial lines

Direct, broker and affinity distribution

Canada

Market size²: £27bn

Top 3 market position overall

67% Personal, 33% Commercial lines

Broker and affinity distribution

Latin America

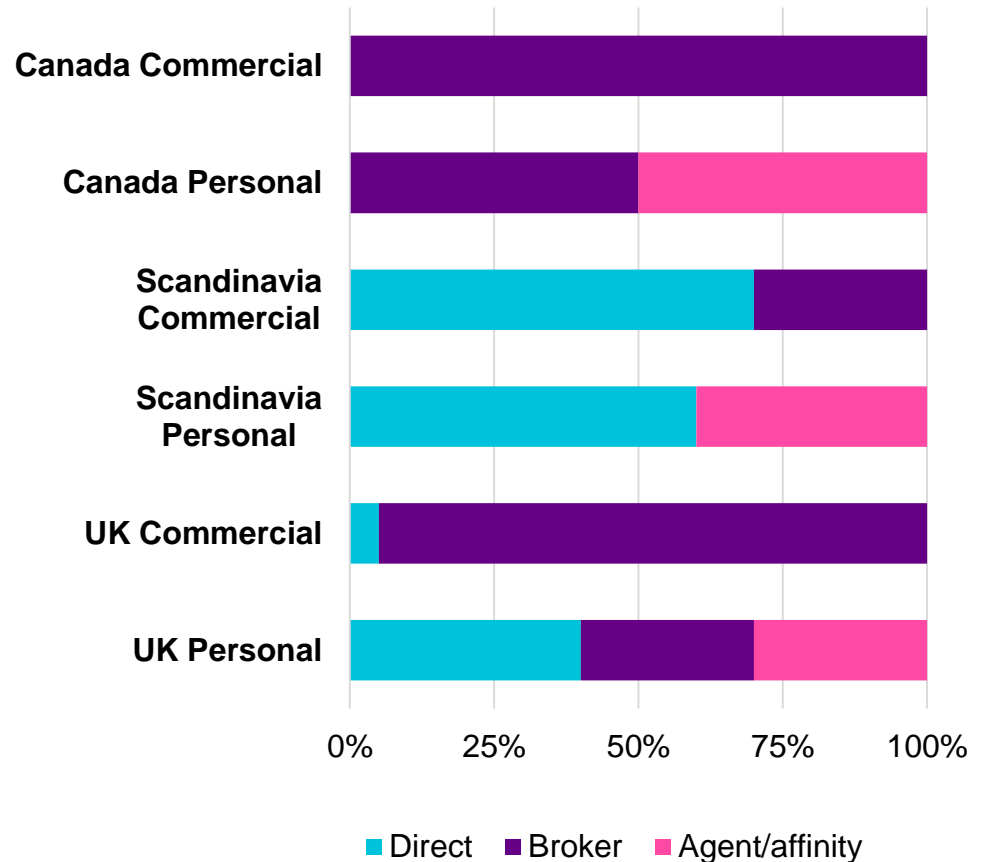
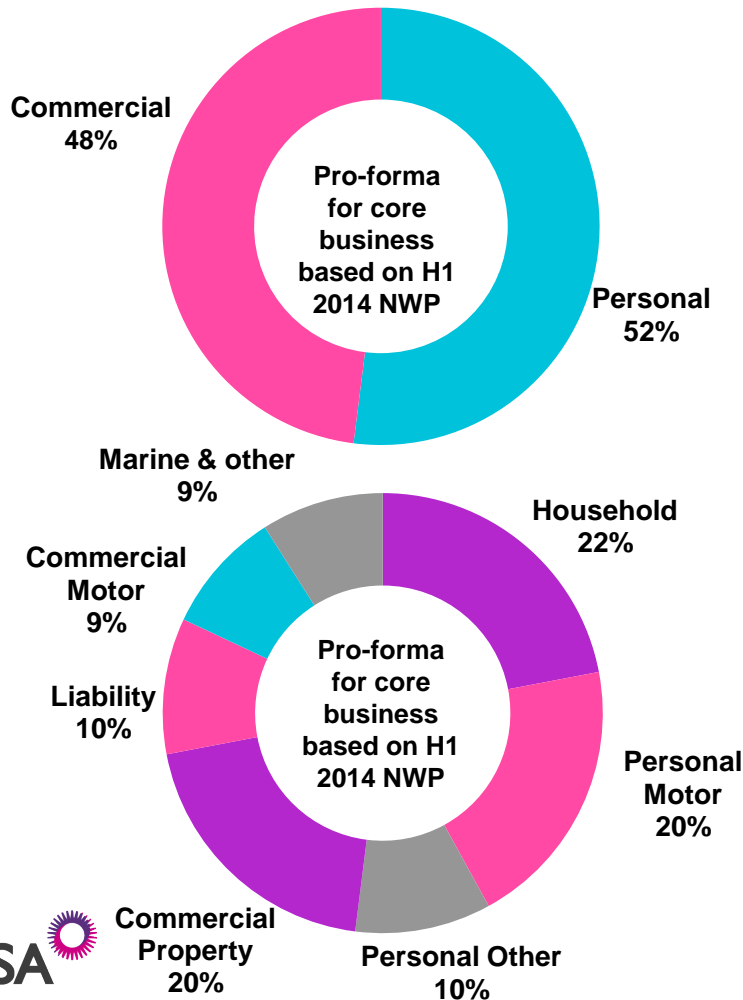
Market size²: £62bn

No.1 Chile, No.2 Uruguay, No. 6 Argentina, Leading niche position in Brazil. Operations in Mexico and Colombia

RSA'S BUSINESS MIX - WELL BALANCED

By customer and product...

... and by distribution channel



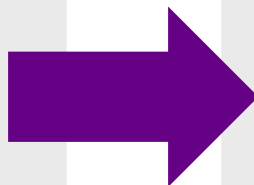
P&C MARKET CHARACTERISTICS INFORMING RSA'S STRATEGY



WINNING STRATEGIES IN MAINSTREAM P&C

Strategic beliefs

- Focus business mix on areas of market and competitive strength
- Misplaced 'bets' on 2nd tier operations weaken outcomes
- Customer franchise a crucial asset
- Operational discipline and excellence the key to success, within a focused strategic envelope
- Strong risk management a priority – capital, underwriting, business balance



Targeted outcomes

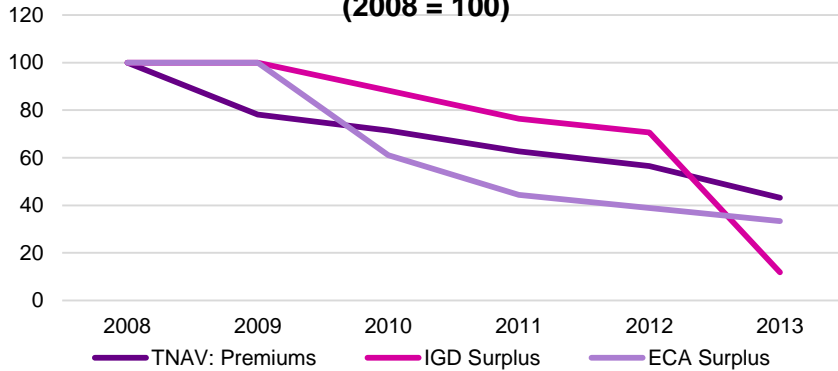
- Single digit growth rates
- Strong cash generation
- Return on tangible equity 'in the teens'
- Customer propositions valued and stable or growing
- Stable 'A' credit rating
- Building advantages in:
 - Sales effectiveness / customer appeal
 - Underwriting effectiveness
 - Cost efficiency
 - Capital management

CHALLENGES FOR RSA AT THE START OF 2014

1

Capital Erosion

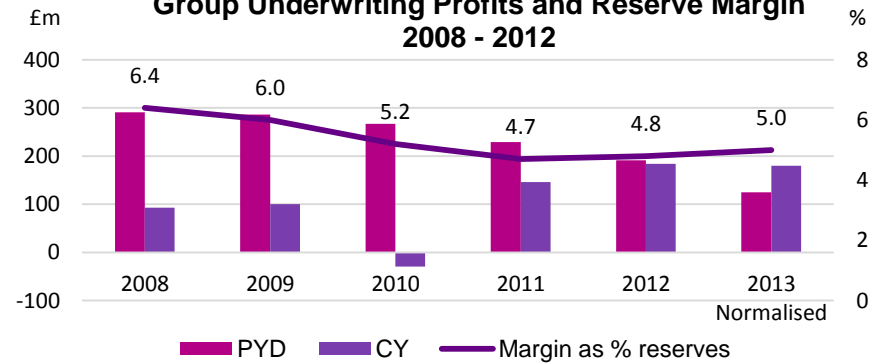
Key capital metrics 2008 – 2013
(2008 = 100)



2

Reliance on Prior Year

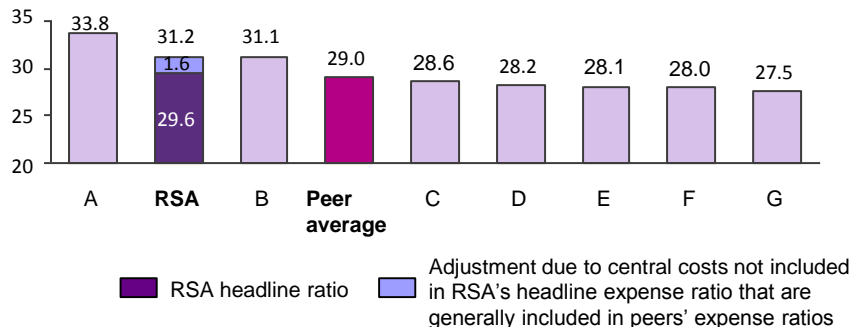
Group Underwriting Profits and Reserve Margin
2008 - 2012



3

Expenses

Total expense ratio¹ vs. peer group², 2012, %



4

Industry issues

- Weather trends
- Technology spend and effectiveness
- Underwriting discipline and competition
- Low yield environment

¹ Includes commissions

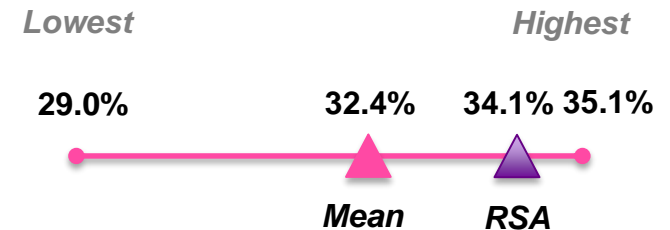
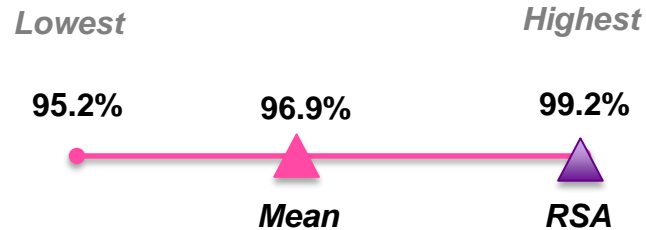
² Peer group includes: Ace, Allianz, Aviva, AXA, Generali, QBE, Zurich

BENCHMARKING PERFORMANCE – THOUGH BUSINESS MIX ALSO A DRIVER

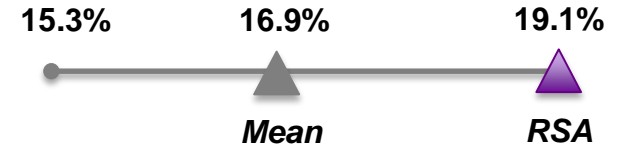
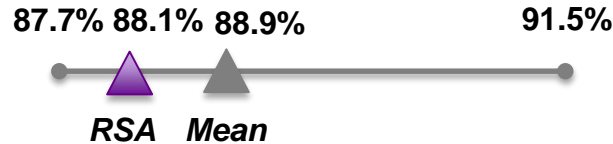
Peer* Combined Ratio 2013

Peer* Expense Ratio 2013

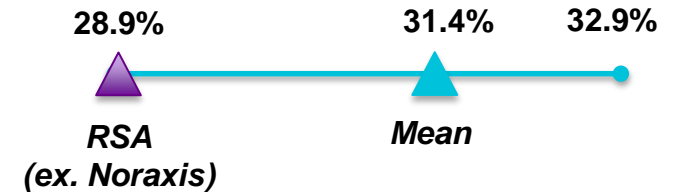
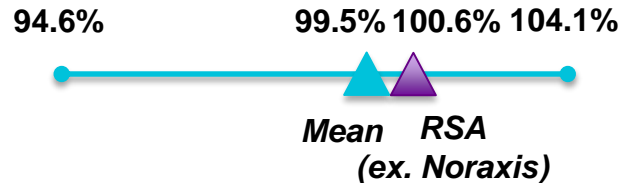
UK



Scandinavia



Canada



Source: As reported in published financial statements.

*Peer group consist of:

1) UK: Aviva, DLG, AXA (UK&I), Allianz and Zurich

2) Scandinavia: Top, Tryg, Gjensidige and If. Expense ratio for Top and Tryg reported on a GEP basis and has been recalculated to be on a NWP basis.

3) Canada: Intact, Aviva, Cooperators and Economical.

Note that there may be slight differences in accounting treatment for COR and ER between local peers and RSA.

STRATEGY AND ACTION PLAN FOR RSA

1. Tighten strategic focus of the Group

- Disposals and portfolio action
- Concentrate resources and management effort on a coherent core

2. Reset the quality and quantity of capital strength

- The bar is higher for financial institutions than before
- Trust in risk profile and quality of financial statements a must
- RSA was undercapitalised at the end of 2013

3. Improve business performance and capability to sustain it

- Actions, where needed, on underwriting, portfolios, expense and distribution
- Invest in technology to drive competitive advantage
- High performance, disciplined culture. Build track record of delivery

**Serve customers well. Operate with capital strength.
Focus on driving shareholder value**

WHAT WE ARE DOING AND PLANNING TO DO

Implementing strategic focus

- £721m value of disposals announced to date (Baltics, Poland, Noraxis, Hong Kong, Singapore & China).
- Target remaining disposals by end of 2015.

Building financial strength and confidence

- Rights issue and disposals boosted tangible equity by 57% in H1 to £2.6bn; 83% growth to £3.1bn pro-forma for announced deals pending completion.
- S&P rating upgrade to A 'stable'.
- Balance sheet 'clean-up' and transparency measures continuing.

Improving performance

- 'Transformation' plan underway – portfolio actions and cost saves the initial focal point.
- Management re-shaping on track.
- More ambitious plans being developed ('Wave 2').

ACTION PLAN – TARGET TIMELINE

2014

2015

2016

2017

Strategic focus

- Core / review portfolio
- First wave of disposals

- Complete disposal programme

Capital & balance sheet strengthening

- Proceeds from rights issue, disposals & earnings
- Balance sheet 'clean up'
- Sub-debt opportunity

- Further disposals & earnings
- Target restart of dividends
- Preparation for Solvency II

Operational improvement

- Transformation plan
- Management team
- Implementation starts:
 - Cost base
 - Portfolio actions
- Assess scope to go Further ('Wave 2')

- Implementation:
 - Cost base
 - Underwriting / sales effectiveness
 - Systems investment
- 'Wave 2' initiatives commencing
- Benefits building

- Implementation:
 - Cost base
 - Underwriting / sales effectiveness
- Benefits building
- 'Wave 2' initiatives continue
- Systems Investment

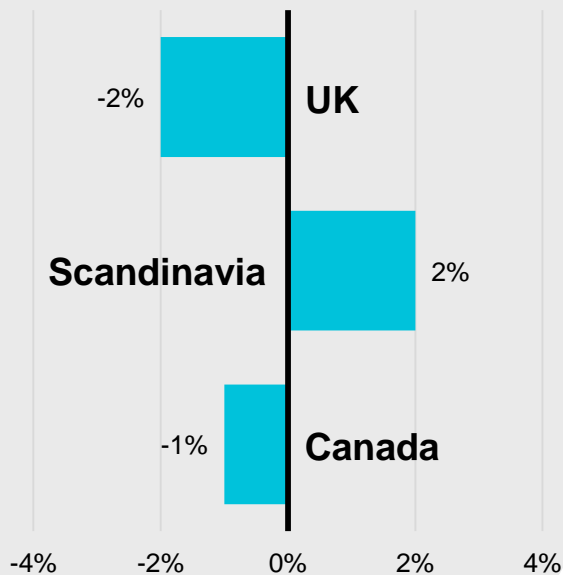
- Cleaner benefits 'run rate'
- 'Wave 2' initiatives continue

MARKET DYNAMICS FORCING EVEN MORE EMPHASIS ON OPERATIONAL IMPROVEMENT

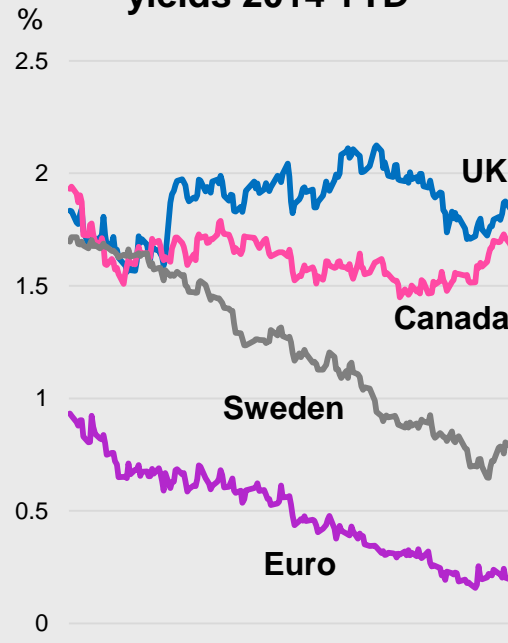
Market conditions:

- Most markets highly competitive
- Softening wholesale insurance rates putting pressure down the value chain
- Low interest rates pressuring investment income

P&C peer group growth H1 2014



5 year government bond yields 2014 YTD



High volume/price sensitivity

RSA H1 2014 underlying trend:

% change in NWP	Rate	Volume
Scandinavia	3%	(1)%
Canada	2%	(4)%
UK	2%	(10)%
Ireland	5%	(21)%
Emerging Markets	2%	5%
Total Group	2%	(5)%

OPERATIONAL VALUE DRIVERS

Value driver	Sensitivity	Illustrative impact on pre-tax profit ¹
Volume	1% change in NWP (at same loss ratio and commission ratio)	+/- £18m
Claims / underwriting	1pt change in loss ratio	+/- £84m
Expenses	1pt change in expense ratio	+/- £86m
Investment income	20 bps change in average bond portfolio yield	+/- £22m
Interest expense	1pt coupon change across all instruments	+/- £13m

OPERATIONAL ACTIONS – SALES EFFECTIVENESS / CUSTOMER APPEAL

1

Customer Actions

- | | |
|---|---|
| • Distribution | Retain direct/ broker/ affinity choice for clients. Affinity growth in focus particularly |
| • Speed, convenience and flexibility | Digital trends at the forefront of customer evolution |
| • Proposition | Drive to sharpen targeted customer propositions |
| • Service | Differentiate on service standards and delivery |
| • Satisfaction | Target strong positive NPS and effective brand promise |

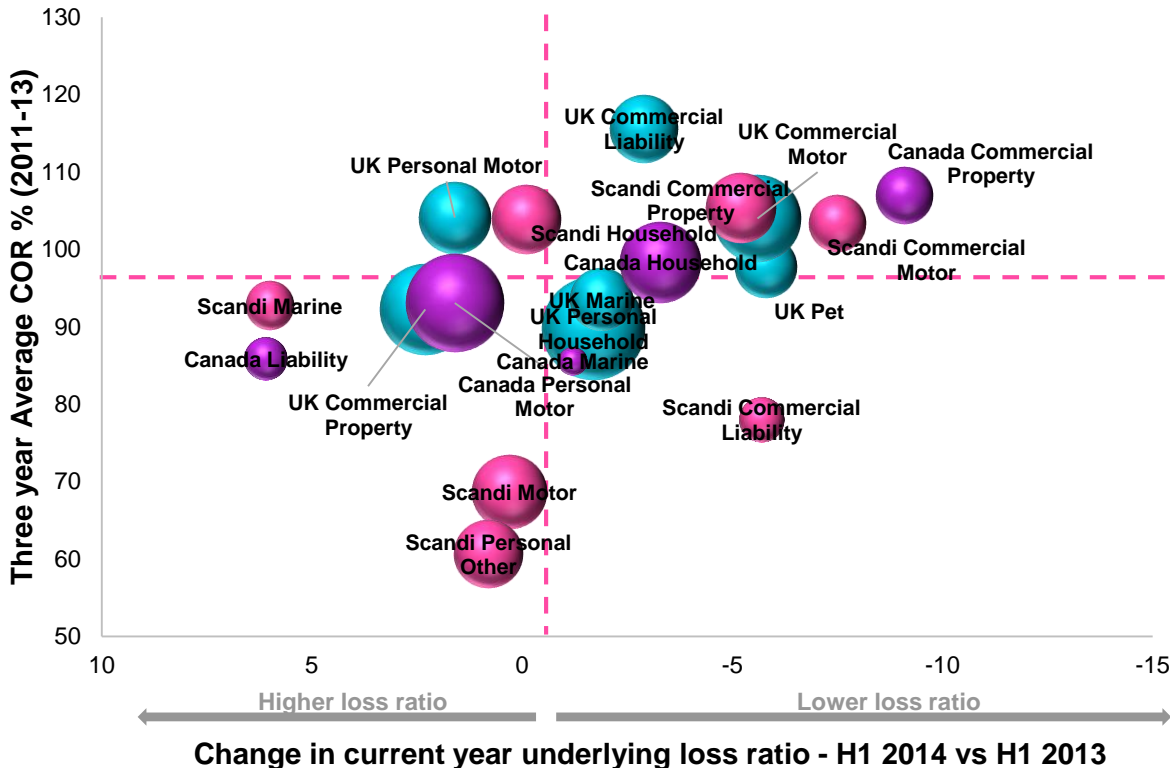
2

Sales Actions

- | | |
|---------------------------------------|--|
| • Salesforce effectiveness | Multiple disciplines to improve delivery to customers |
| • Trading capabilities | Greater market responsiveness in pricing and policy make up |
| • Pricing expertise | Richer risk segmentation |
| • E-trading / SME competencies | Drive “industrialisation” of SME delivery for price competitiveness and growth |

OPERATIONAL ACTIONS – UNDERWRITING EFFECTIVENESS

Driving pricing discipline / portfolio action

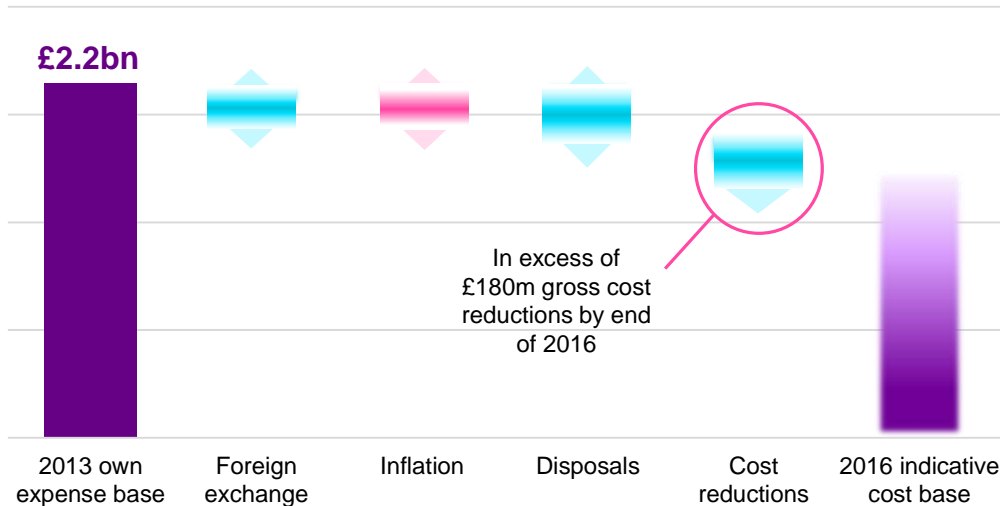


Enhancing RSA's underwriting effectiveness

- Improve sophistication, agility and flexibility of rating platforms
- Reduce the number of products and simplify processes that support them
- Improve robustness and consistency of process to move from technical rates to 'trading' price
- Improve frequency of updating claims cost models
- Improve MI / data warehousing

OPERATIONAL ACTIONS – COSTS; WITH MORE TO DO....

Indicative movement in cost base 2013-16



Region	Underlying cost reduction range ¹
UK	18% - 19%
Ireland	11% - 13%
Scandinavia	2% - 3%
Canada	2% - 3%
Emerging Markets (ex review businesses) ²	12% - 14%
Head office	13% - 15%

Cost Initiatives

- **Simplification of end-to-end processes** through redesign and automation of processes, e.g. avoiding waste in re-keying of data via simpler, fewer systems
- **Transformation of our information systems** through rationalisation of complex architecture, decommissioning of obsolete systems and renegotiation of unfavourable contract conditions
- **Optimisation of procurement**, renegotiating main contracts to bring them in line with market best practice and improving adherence to quality standards
- **Streamlining of spans, layers and support functions**, reducing the number of managers and the number of management layers
- **Simplification of our product offering**
- **Optimisation of footprint**, consolidating offices and branches where beneficial

¹ Cost reduction range as a percentage of each region's 2013 controllable expense base less foreign exchange and disposals impact.

² Includes Emerging Markets head office costs.

'BELOW THE LINE LEAKAGE' ALSO IN FOCUS

£m	FY 2013 normalised results
Underwriting profit	309
Investment result	365
Insurance result	674
Central expenses	(73)
Operating result	601
Interest expense	(117)
Amortisation	(42)
Other (incl. Solvency II)	(15)
Profit before tax	427

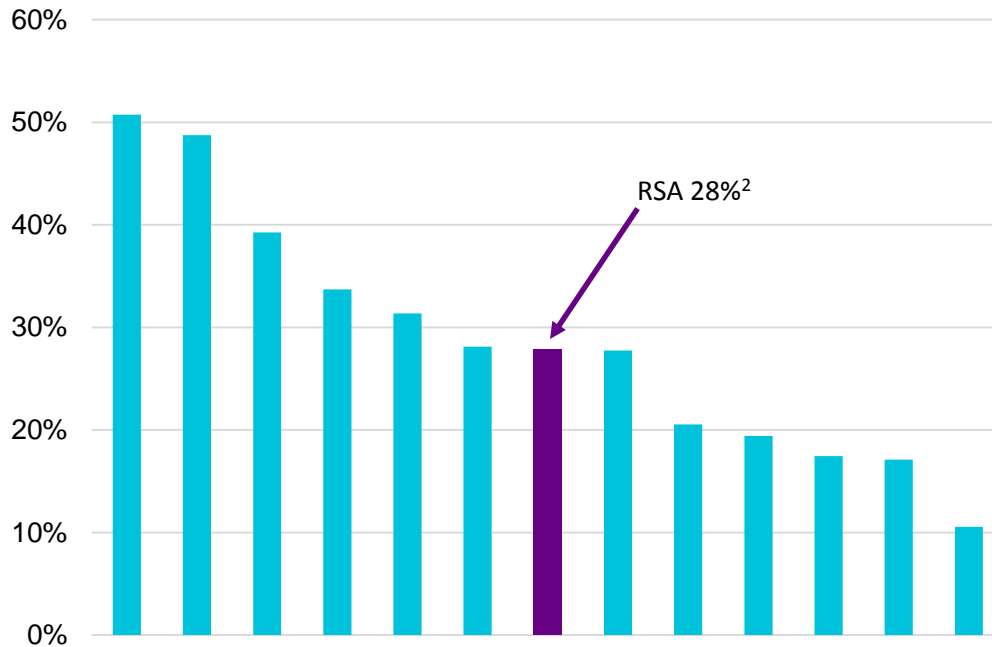
Major improvements targeted:

1. Restructure of Group Head Office functions
2. Opportunity to refinance sub-debt at lower coupon
3. Amortisation is non-cash / capital item
4. Solvency II to be in 'business as usual' in 2016

'Leakage rate': **37%** of Insurance Result

LEVERAGE AND INTEREST EXPENSE

Leverage¹ H1 2014, selected P&C peers



RSA interest expense opportunity

Instrument size	Call date	Coupon	2013 interest cost
£450m	Dec 2014	8.5%	£38m
£375m	July 2017	6.7%	£25m
£500m	May 2019	9.4%	£47m
2013 interest expense			£117m³



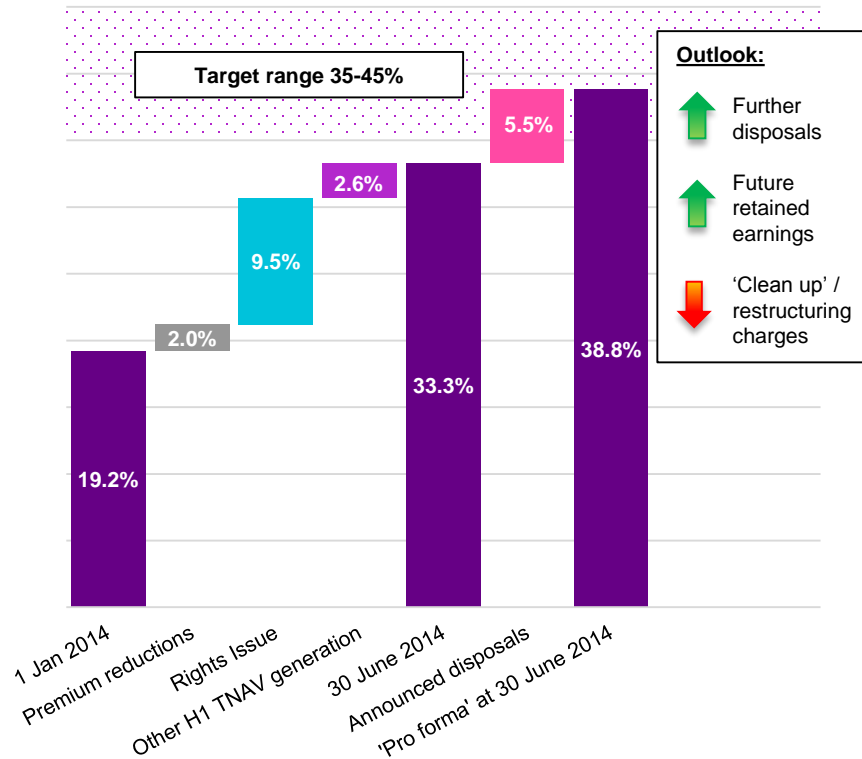
¹ Debt: Debt + TNAV

² Pro-forma for announced disposals

³ Includes £7m other interest expense

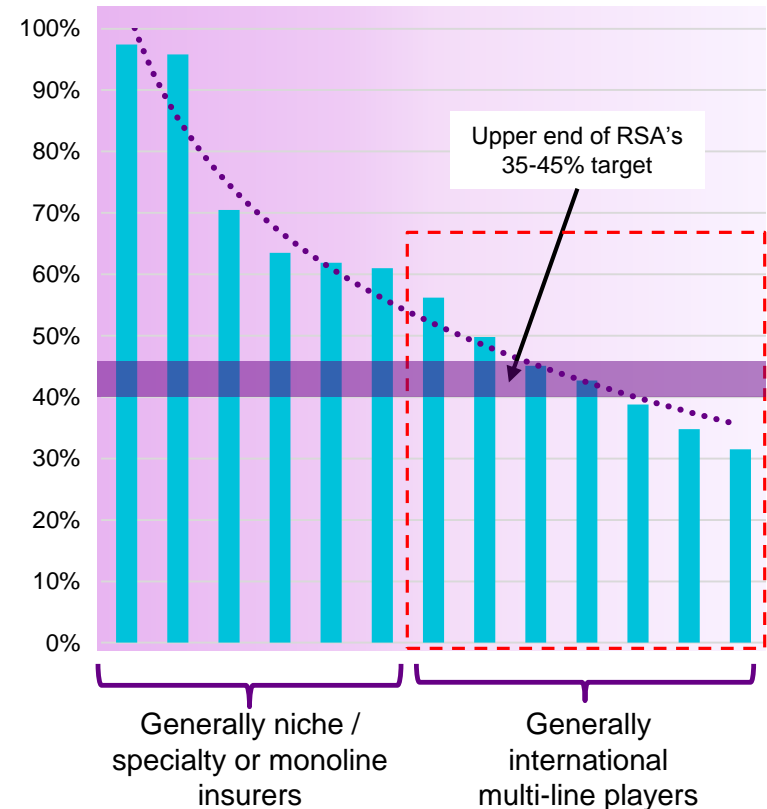
RESTORING CAPITAL STRENGTH, RETAINING BENEFITS OF BUSINESS BREADTH

RSA TNAV:Premium development



Note: TNAV:NWP ratios calculated using two times H1 2014 NWP

P&C TNAV:Premium ratios (H1 2014)



Source: Company financials

Note: For composite insurers, reported economic capital allocation is used to determine TNAV allocated to P&C business.

SUMMARY

Focused:

- Market leading businesses in Northern developed markets
- Growth business in Latin America

Stronger:

- Well capitalised, targeting sustainable attractive returns
- Business balance; strong risk management

Better:

- Strong customer appeal
- Operational improvements the focus: underwriting and costs especially
- Transparent and easy to understand