

# 2017 PRELIMINARY RESULTS

22 February 2018



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**Basis of presentation**

This presentation uses alternative performance measures, including certain underlying measures, to help explain business performance and financial position. Further information on these is set out in the 2017 Preliminary results announcement.

# AGENDA

- 1 Introduction
- 2 Strategy & business improvement actions
- 3 Regional update
- 4 2017 Preliminary results
- 5 Q&A

# INTRODUCTION

# THE RSA PROPOSITION

- 1 'Focused mid-cap', a proven value creation strategy in P&C insurance
- 2 A 'self help' story with 'high quality' underpinnings
- 3 Resilient in challenging economic and financial market conditions
- 4 Attractive EPS & dividend increases – delivered and in prospect<sup>1</sup>

# 2017 HIGHLIGHTS

## Winning for customers and for shareholders

- 1 Strategy & balance sheet where we want it. Restructuring complete
- 2 Outperformance continues, driven by self-help actions
- 3 Record<sup>1</sup> underwriting profits & combined ratio (94%)  
– Written premiums up, attritional loss ratio and costs down again
- 4 EPS<sup>2</sup> up 10%, dividend up 23%, ROTE<sup>2</sup> 15.5%
- 5 Focused on drive towards best-in-class performance levels

# 2017 FINANCIALS

- **Group premiums of £6.7bn, up 4% (Core Group up 2% CFX)**
- **First year of organic growth since 2012, as targeted**
- **Underwriting result of £394m up 4%, and a new record for RSA:**
  - Combined ratio of 94% also a record. Scandinavia and Canada within best-in-class COR targets but scope for further progress
  - Poor UK & International results (Nat Cat affected); opportunity for 2018 bounce back
  - Attritional loss ratio improved again. Good progress in all businesses except the UK
  - Controllable costs down 8% in real terms; cost savings target upgraded for a fourth time to > £450m by 2019
- **Underlying PBT up 12%. Statutory profit after tax £322m (2016: £20m)**
- **Solvency II coverage ratio of 163% (2016: 158%)**

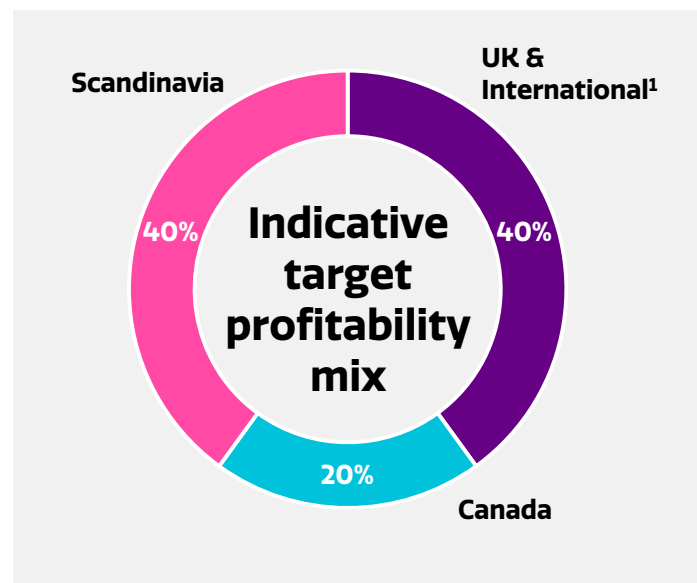
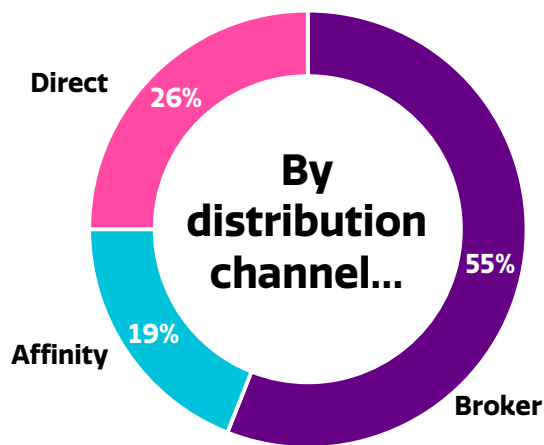
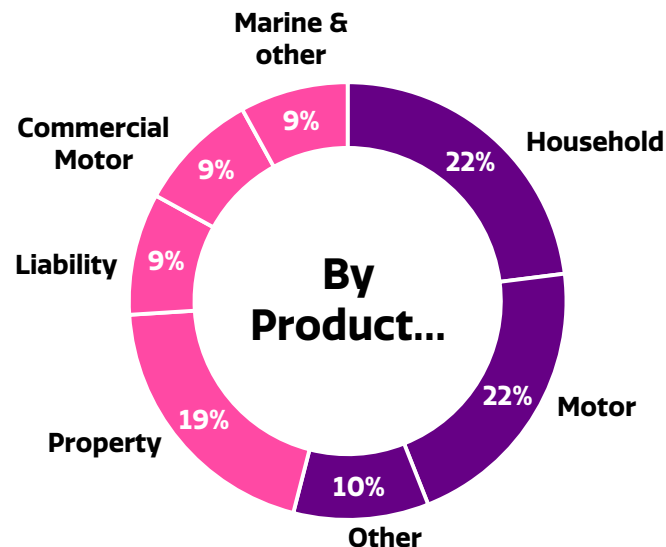
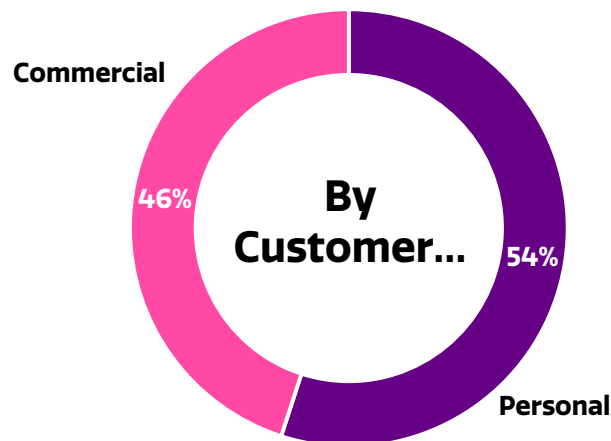
# **STRATEGY & BUSINESS IMPROVEMENT ACTIONS**



# PURSUIT OF OUTPERFORMANCE


- 1 Strong customer franchises**
- 2 Disciplined strategy, focused on strengths, seeking to avoid mistakes**
- 3 A balance sheet that protects customers and the company**
- 4 Intense and accomplished operational delivery – improving customer service, underwriting and costs**

# LEADERS IN OUR MARKETS, WITH ATTRACTIVE BUSINESS BALANCE



# 'FOCUSED MID-CAP' PROPOSITION


**1**



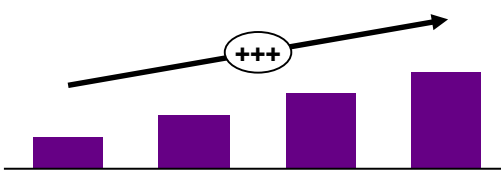
**Regional leadership positions**

RSA TRYGG HANSA JOHNSON  
MORE TH>N<sup>®</sup> CODAN 123.ie  
العالمية AL ALAMIYA  
الأهلية AL AHLIA


**2**




**Intense performance focus**



**3**

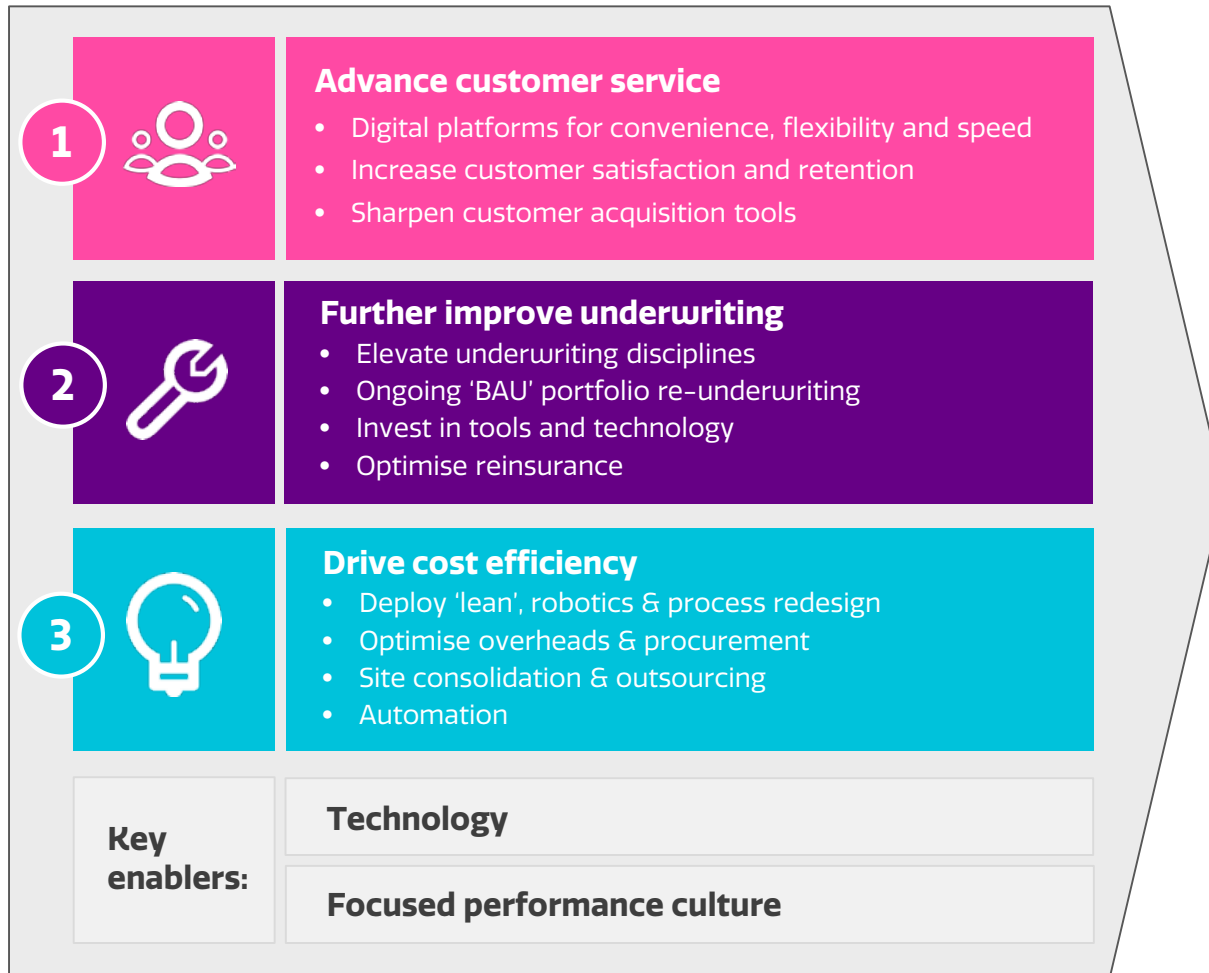


**Operational and financial excellence**



**Aim to deliver superior performance and justify a superior P/E**

# PERFORMANCE IMPROVEMENT LEVERS



## Targets

### 'Best-in-class' COR ambitions

- Scandinavia <85%
- UK & International <94%
- Canada <94%



### Earnings

- High quality, repeatable earnings
- Attractive EPS increases
- ROTE **13-17%** or better



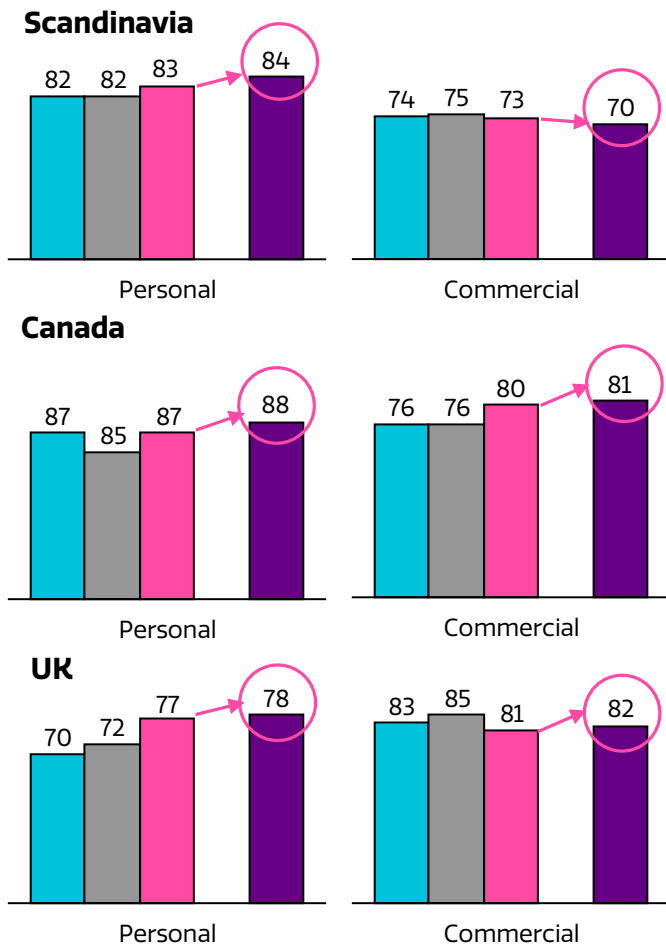
### Dividend

- Regular payout **40-50%**, plus additional payouts as available and prudent

**Underpinned by strong balance sheet and capital management**

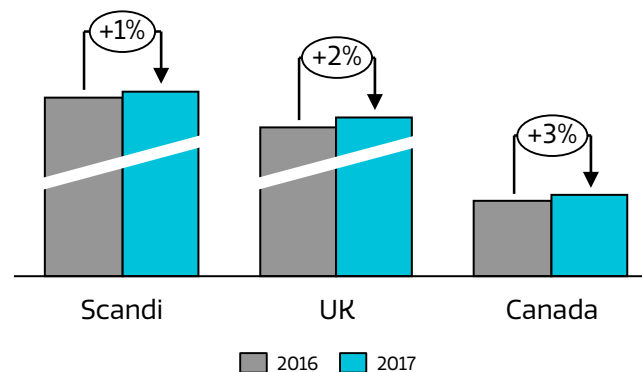
# GROUP RETURNED TO POSITIVE TOP LINE IN 2017

## Customer retention (%)

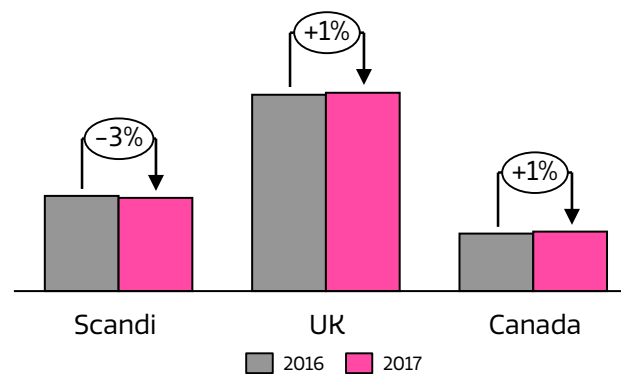


2014 2015 2016 2017

## Personal Lines - Policies in force



## Commercial Lines - Volumes



# CUSTOMER INITIATIVES EXAMPLES

## UK Personal Lines

**Opportunity:** Create a best-in-class personal lines platform, starting with Nationwide partnership

**Approach:** New IT platforms, redesigned products and customer journeys

**Outcome:** Key Nationwide performance statistics, within just 4 weeks of go-live:



**86%** retention at renewal



**+65 NPS** in sales and service



Simple, easy to understand modular insurance product



**30% online sales conversion**



Customer managers using 1 CRM system (from 17 used in legacy businesses)

## Digital claims in Denmark

**Opportunity:** Enhances customer journey through the claims handling process, increases loyalty and drives efficiencies

**Approach:** Market-leading tool that combines robotics, machine learning, and audit rules, with all stakeholders on one platform

**Outcome:** Improved customer satisfaction, extended self-service, lower handling times



**+16 pts** increase in NPS Liability

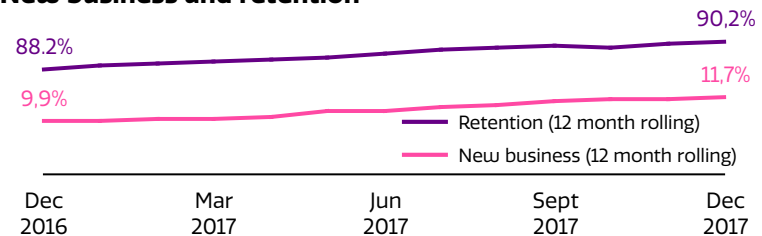


**+6 pts** increase in NPS Workers Compensation

## Digital & customer – Johnson Canada

Digital capability developments driving growth and customer satisfaction

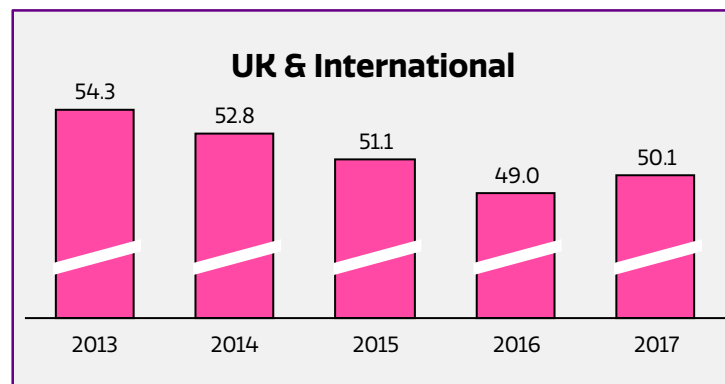
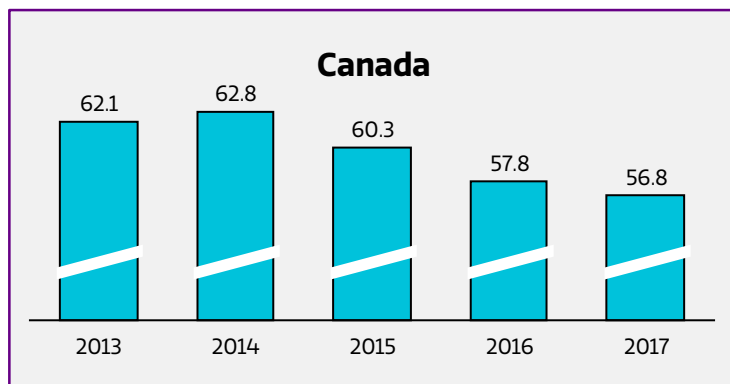
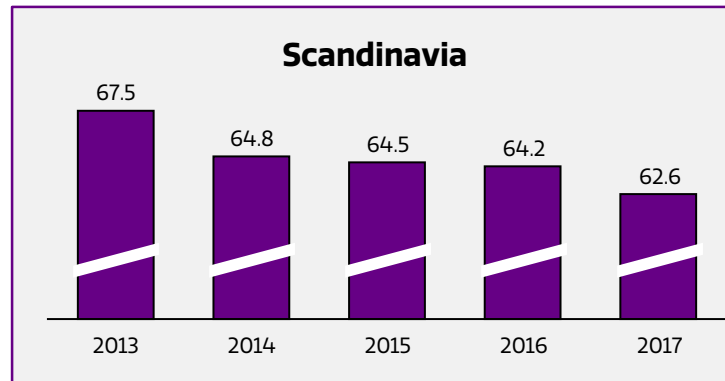
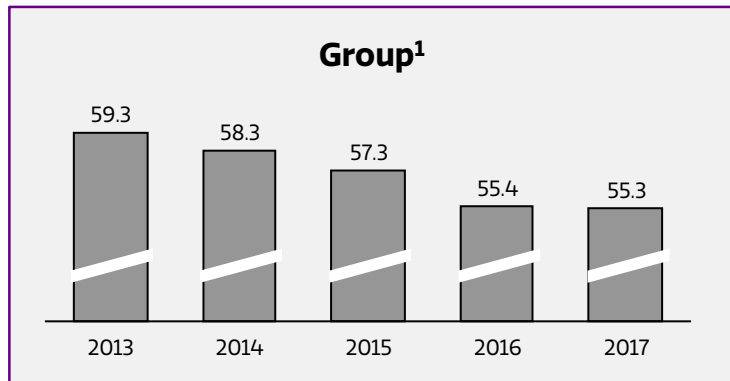
### New business and retention



# LOSS RATIO IMPROVEMENTS CONTINUE



Attritional loss ratio (%)






<sup>1</sup> Group excluding disposals at constant exchange rates

# BETTER UNDERWRITING – EXAMPLES

## Data science advances





Competitions in data science and predictive modelling run across the Group

First machine learning competition generated:

-  54 separate entrants with 27 models submitted
-  Estimated loss ratio benefit of up to 3%
-  Machine learning techniques (GBMs) are now 'BAU' in UK pricing

## Use of data and analytics in Tryggv Hansa

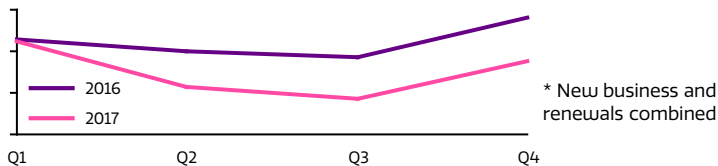
New SME underwriting framework based on deep analysis of customer data and introduced automated case handling approach to handle high volume, low value cases

-  **51%** of manually written cases automated
-  **65%** of manually renewed cases will be automated in 2018
-  Improved quality and renewal rates
-  Proven overall efficiency

## Canada Commercial Property large loss propensity model (LLP) and risk mix index

New analytical tool developed in-house to predict frequency of Property large losses (> \$0.25m) to better manage exposures

### LLP Risk Mix Index\*



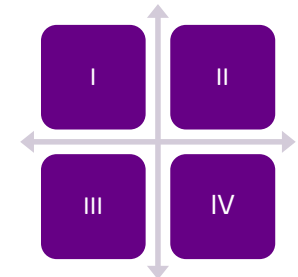
The Risk Mix Index measures the average LLP rank of the portfolio on a quarterly basis

## Quartile analysis in UK Commercial large loss

Strengthening 'case' analysis to identify if and where more underwriting action needs to be taken

Case categorisation: Aim to minimise category 4 cases:

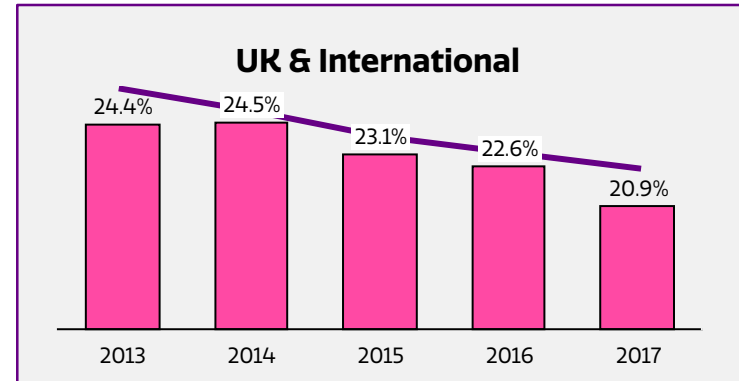
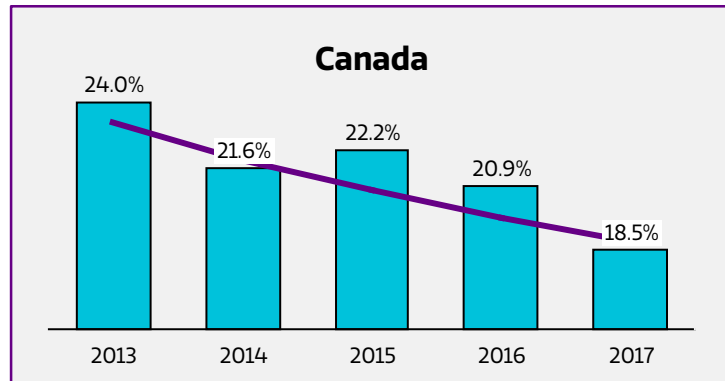
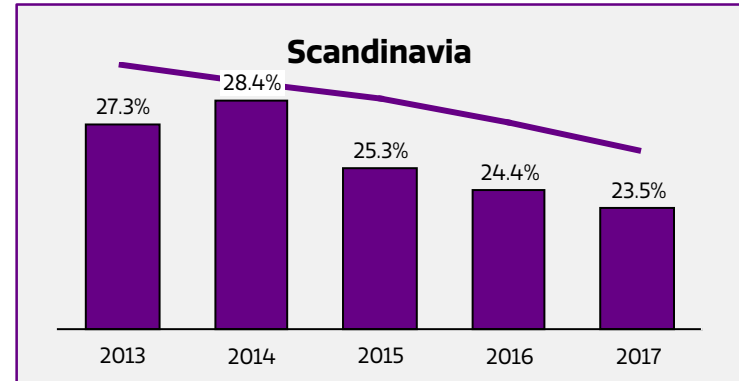
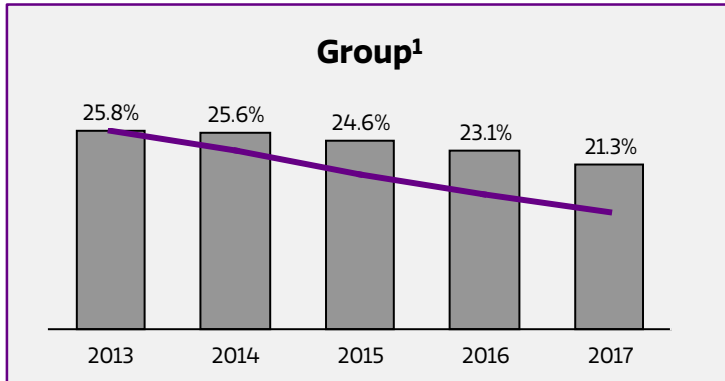
- I. Risk correctly evaluated
- II. Adequate underwriting
- III. Underwriting could have been better, but we would still have incurred loss
- IV. Inadequate underwriting





# COST EFFECTIVENESS BUILDING WELL

**Goal is controllable cost ratios below 20% in every business**



— FTE  
 Total written controllable cost ratio

# COST EFFICIENCY A PERMANENT REQUIREMENT

## Cost reduction themes

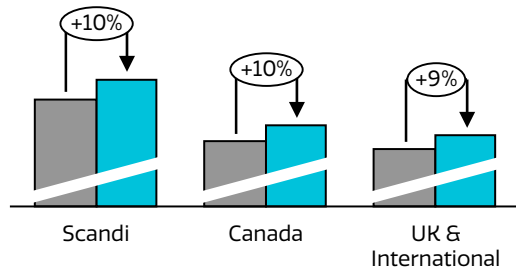
- 1 Simplify & automate end-to-end processes
- 2 Optimise procurement
- 3 Streamline spans and layers
- 4 'Lean' working and site consolidation
- 5 Selective BPO



### 2017 examples:

- **Office consolidation:** 50% less office space in Toronto, 60% in Stockholm, and 25% in London. Other site consolidation in Sweden
- **Selective BPO:** Outsourced voice calls in UK Motor; BPO projects underway in Scandinavia and Canada
- **'Lean'** across the Group showing material improvements in efficiency

### Improvements in Productivity (NWP/ FTEs)



2016 2017

## Cost target upgraded for fourth time

>£450m

Gross annualised cost savings by 2019

Upgraded from >£400m by 2018

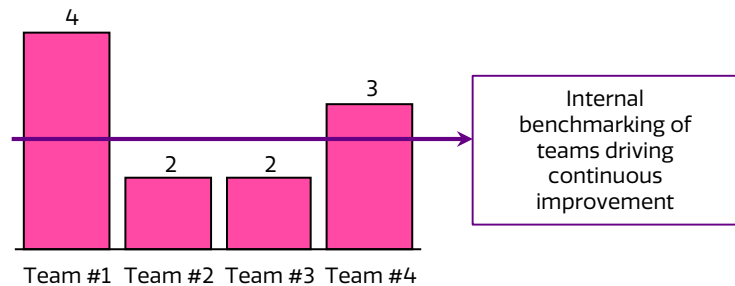
£395m

Cost savings to date

## Zero-Based Budgeting Example

Structured approach to costs which facilitates forensic insight and drives a cost management culture

### Wrap time (minutes per call)



Budgeting system enables real time data collection, up-skills management and drives action

# REGIONAL UPDATE

# EXCELLENT PROGRESS IN SCANDINAVIA

Progress	2013	2016	2017	Ambition
COR	88.1%	86.2%	<b>82.9%</b>	<b>&lt;85%</b>
Current year COR	94.6%	87.7%	<b>86.1%</b>	
Attritional loss ratio	67.5%	64.2%	<b>62.6%</b>	
Controllable expense ratio	27.1%	24.2%	<b>23.3%</b>	<b>&lt;20%</b>

## Key achievements in 2017

- Excellent track record of improvement in our most valuable business
- 2017 COR of 82.9% within our < 85% ambition for the first time on record – strong closing of peer performance gaps
- Attritional loss ratio and expense ratio gains drive results. NWP/ FTE up 33% since 2013
- Top line now positive and PIFs growing, with ambition to improve further
- PYD above trend in 2017. Need to drive CY result further to improve COR sustainability
- Sweden – the standout performer. Need to sustain and grow
- Denmark – making progress but major cost and loss ratio opportunities remain
- Norway – modernising platform and seeking to scale

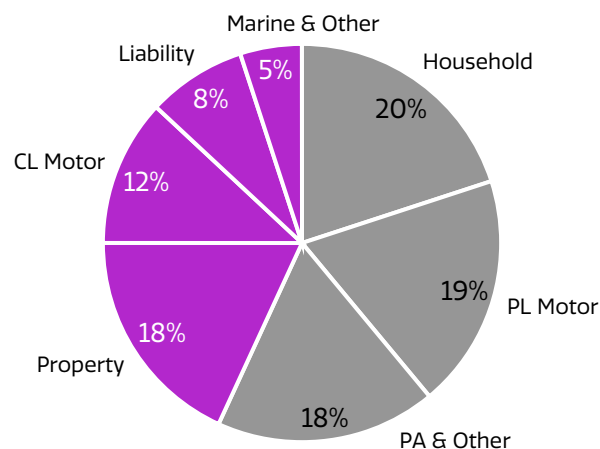
**£1.8bn**

2017 Scandi NWP

↓  
**+7% v 2016**  
**+0.3% at CFX**

↓  
**Medium term outlook:**  
**+1-4% CFX**

## Split of Scandinavia NWP



# EXCELLENT PROGRESS IN CANADA

Progress	2013	2016	2017	Ambition
COR	100.7%	94.9%	<b>93.9%</b>	<b>&lt;94%</b>
Current year COR	101.9%	99.6%	<b>96.6%</b>	
Attritional loss ratio	62.1%	57.8%	<b>56.8%</b>	
Controllable expense ratio	24.4%	20.7%	<b>18.7%</b>	<b>&lt;20%</b>

## Key achievements in 2017

- Strong progress on best-in-class journey
- COR 93.9% within our < 94% ambition, and less reliance on PYD as planned
- Pleasing top line improvement. Reflects customer and capability initiatives in all divisions
- Attritional loss ratio progress positive, benefiting from new risk models, pricing engines and claims savings
- Controllable cost ratio now best in RSA. NWP/ FTE up 22% since 2013
- Canada a naturally volatile market. More progress targeted on all fronts and especially large loss underwriting

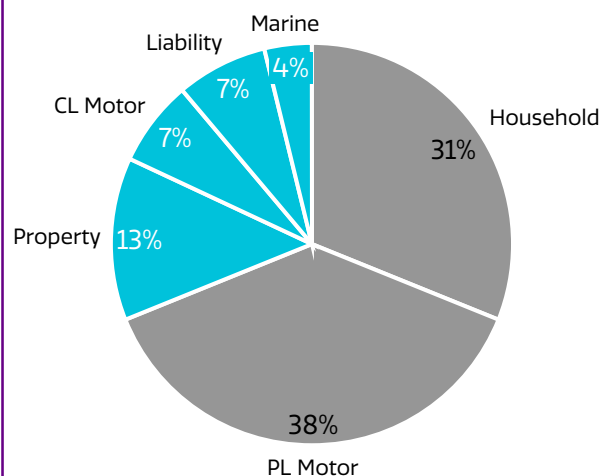
**£1.6bn**

2017 Canada NWP

↓  
**+12% v 2016**  
**+5% at CFX**

↓  
**Medium term outlook:**  
**+2-4% CFX**

## Split of Canada NWP



# UK & INTERNATIONAL<sup>1</sup> – PERFORMANCE SETBACK, UNDERLYING PROGRESS

UK progress	2013	2016	2017	Ambition
COR	99.6%	95.4%	102.0% <sup>2</sup>	<94%
Current year COR	100%	97.2%	103.2% <sup>2</sup>	
Attritional loss ratio	50.2%	46.3%	48.7%	
Controllable expense ratio	23.8%	22.0%	20.3%	<20%

## Key achievements in 2017

- Very poor underwriting result primarily due to external factors:
  - Household claims inflation
  - Large loss volatility
  - US/ Caribbean Nat Cat £72m net
  - Ogden
- 2018 bounce back expected. Action taken on loss areas
- Customer progress continues. Home partnership with Nationwide went live successfully in December
- Best Motor results in a decade driven by Motability and Telematics
- Home pricing up, plus claims model changes
- Selective action on Commercial portfolio underwriting and scheme lapses
- Reinsurance retentions reduced
- Good progress on costs. NWP/ FTE up 16% since 2013
- Major re-tooling of Personal Lines continues in 2018
- New leadership in both CRS & GRS businesses

**£2.7bn**  
2017 UK NWP

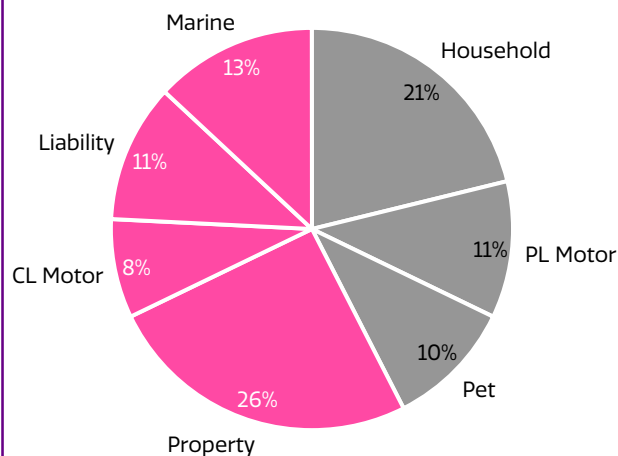
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**+3% v 2016**

↓

**Medium term outlook:  
+1-4%**

## Split of UK NWP



# IRELAND AND MIDDLE EAST – STRONG PROGRESS ALSO

## Ireland

Progress	2013	2016	2017
COR	166.2%	116.2%	<b>96.2%<sup>1</sup></b>
Current year COR	128.2%	99.9%	96.8%
Attritional loss ratio	84.2%	66.2%	<b>60.4%</b>
Controllable expense ratio	29.9%	22.5%	<b>23.3%</b>

### Key achievements in 2017

- Solidly back to underwriting profit – first since 2012
- Progress based on extensive price and underwriting actions. Attritional loss ratio a notable success
- Target COR < 94%. More progress needed on loss ratio and expenses
- NWP £303m, down 7% at CFX

## Middle East

Progress	2013	2016	2017
COR	95.2%	92.8%	<b>87.7%</b>
Current year COR	98.6%	95.5%	<b>93.1%</b>
Attritional loss ratio	71.8%	57.2%	<b>52.2%</b>
Controllable expense ratio	23.2%	23.0%	<b>23.5%</b>

### Key achievements in 2017

- Record headline results and COR, despite challenging economic backdrop
- Underlying progress also strong, COR ambition < 94%
- NWP £208m, up 6% at CFX

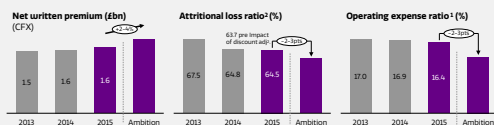
# AMBITION FOCUSED ON DRIVING TOWARDS BEST-IN-CLASS CAPABILITIES AND PERFORMANCE

## Financial ambition 'best in class' combined ratios



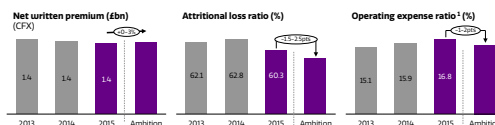
### Scandinavia

< 85%



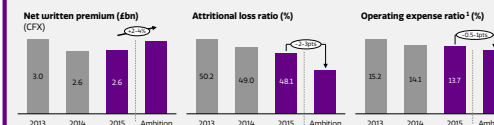
### Canada

< 94%



### UK & International

< 94%





# SUMMARY

## Winning for customers and for shareholders

- 1 Strategy & balance sheet where we want it. Restructuring complete
- 2 Outperformance continues, driven by self-help actions
- 3 Record<sup>1</sup> underwriting profits & combined ratio (94%)  
– Written premiums up, underlying loss ratio and costs down again
- 4 EPS<sup>2</sup> up 10%, dividend up 23%, ROTE<sup>2</sup> 15.5%
- 5 Focused on drive towards best-in-class performance levels

# 2017 PRELIMINARY RESULTS

# PERFORMANCE SUMMARY

£m (unless stated)		2017	2016
Net Written Premiums	①	<b>6,678</b>	6,408
<i>Core Group NWP</i>			6,281
Underwriting result	②	<b>394</b>	380
COR (%)		<b>94.0%</b>	94.2%
Operating profit		<b>663</b>	655
Underlying PBT <sup>1</sup>	③	<b>620</b>	556
Profit after tax	④	<b>322</b>	20
Underlying EPS	⑤	<b>43.5p</b>	39.5p
Underlying ROTE	⑥	<b>15.5%</b>	14.2%
		<b>2017</b>	<b>2016</b>
Tangible net asset value		<b>£2.8bn</b>	£2.9bn

## Key comments

- ① Group Net Written Premiums up 6%, or 2% at constant exchange<sup>2</sup>
- ② Underwriting result up 4%, with COR of 94% a new RSA record
- ③ Underlying PBT up 12% reflecting higher underwriting profit and lower interest costs, offset by lower investment income
- ④ Profit after tax up significantly as non-operating charges fall
- ⑤ Underlying EPS up 10% to 43.5p
- ⑥ Underlying ROTE of 15.5% versus 13-17% target range

# PREMIUM GROWTH

## Growth

Group Net Written Premiums<sup>1</sup> **up 6%** at reported FX and **up 2%** at constant FX

## Growth drivers

Growth in Canada, the UK and in Scandinavia Personal Lines

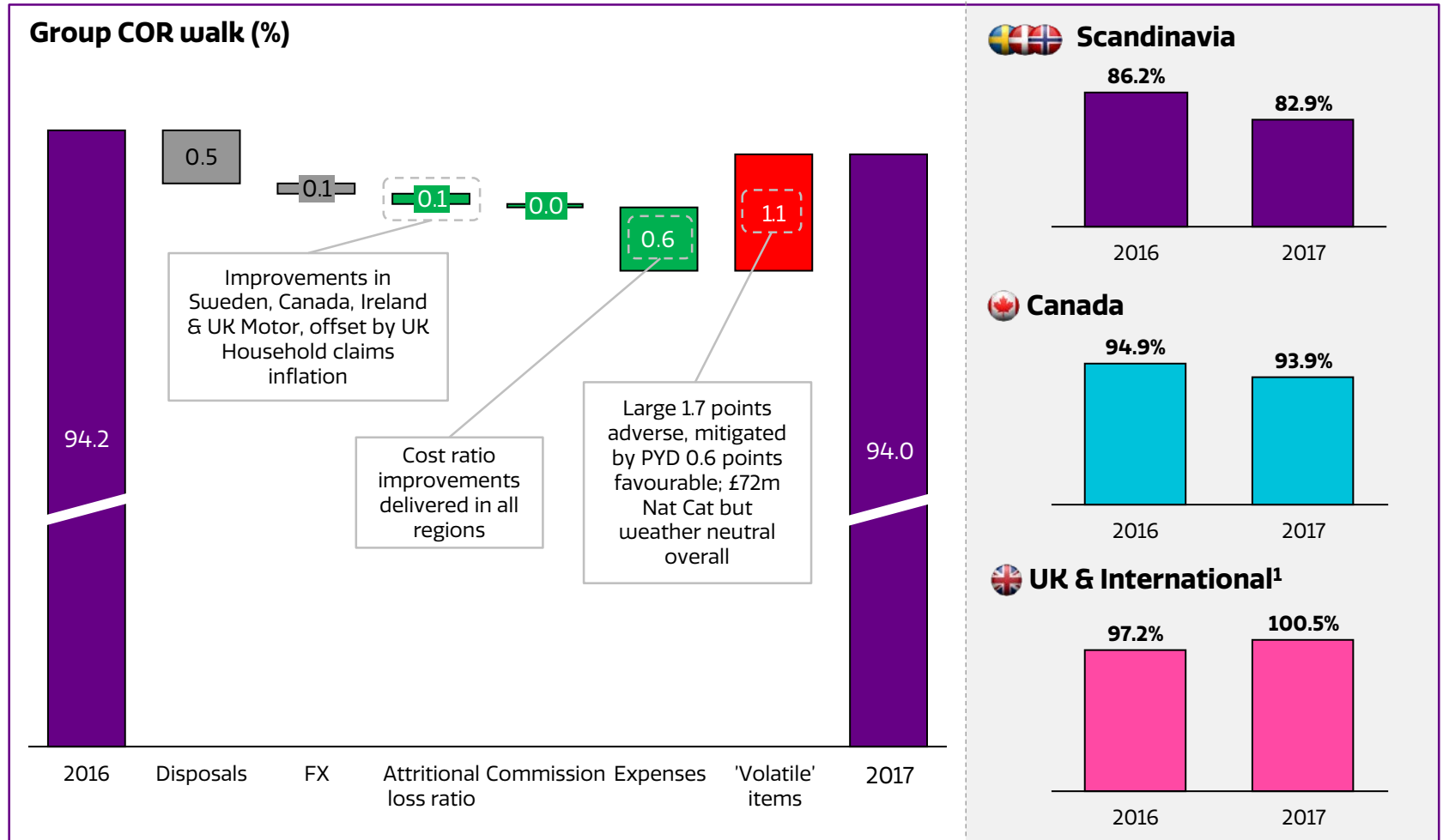
## Retention

Group retention improved to **80.2%** (2016: 79.5%; 2015: 79.1%)

	Personal Lines		Commercial Lines	
	CFX growth	Policy count growth	CFX growth	Volume growth <sup>2</sup>
<b>1 Scandinavia</b>	<b>1%</b>	<b>1%</b>	<b>(1%)</b>	<b>(3%)</b>
<b>2 Canada</b>	<b>5%</b>	<b>3%</b>	<b>4%</b>	<b>1%</b>
<b>3 UK</b>	<b>7%</b>	<b>2%</b>	<b>-</b>	<b>1%</b>

- 1** Scandinavia Personal Lines policy count growth of 1%. Commercial Lines impacted by more volatile short-term Construction, Power & Engineering business
- 2** Canada has now reported 4 consecutive quarters of growth. Our direct brand, Johnson, returned to growth in 2017 (2%)
- 3** UK Personal Lines driven by further Telematics growth; important partnership with Nationwide went live in December

# UNDERWRITING RESULTS

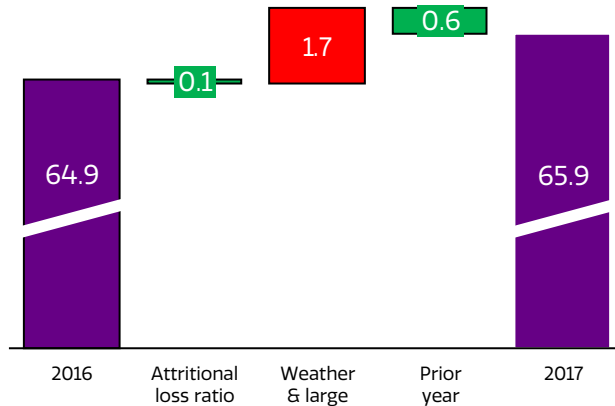


Scandinavia & Canada within best-in-class COR targets but with scope for further progress

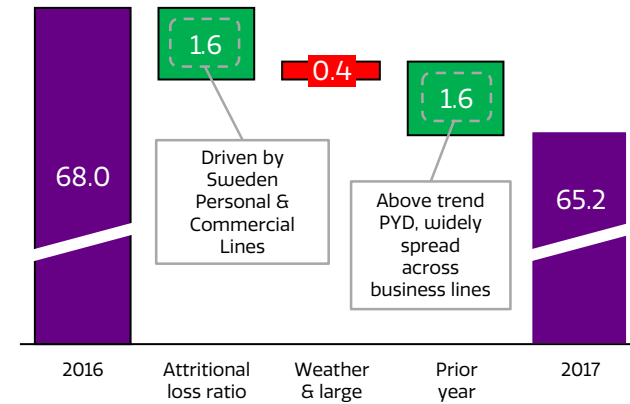
# LOSS RATIOS

## Loss ratio walks 2016 to 2017 (%)

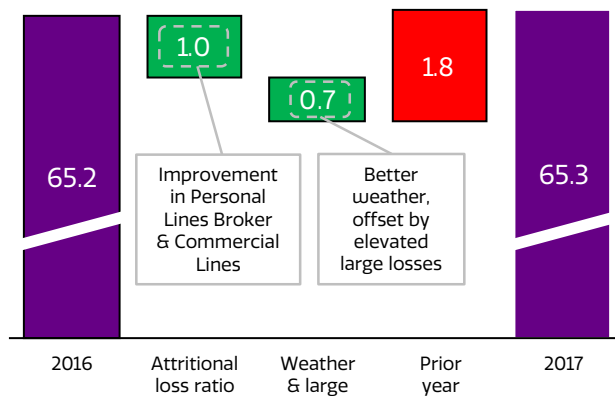
### Group<sup>1</sup>



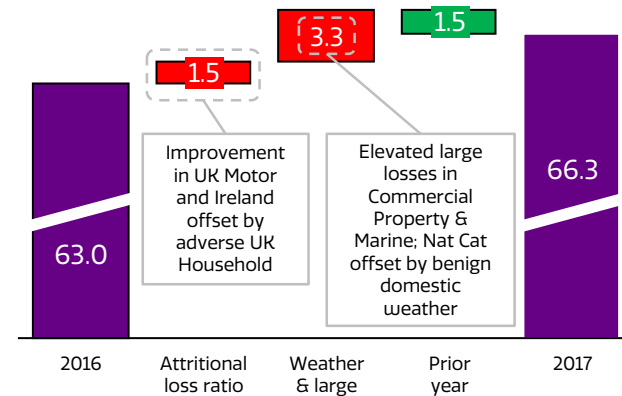
### Scandinavia



### Canada



### UK & International<sup>2</sup>



<sup>1</sup> Group excluding disposals for 2016 at constant exchange

<sup>2</sup> Proforma for net aggregate reinsurance recovery and excludes the impact of the Ogden rate change

# 'VOLATILE' UNDERWRITING ITEMS

## Weather

3 major US/ Caribbean hurricanes & Mexico earthquakes (£72m net cost) with domestic weather benign

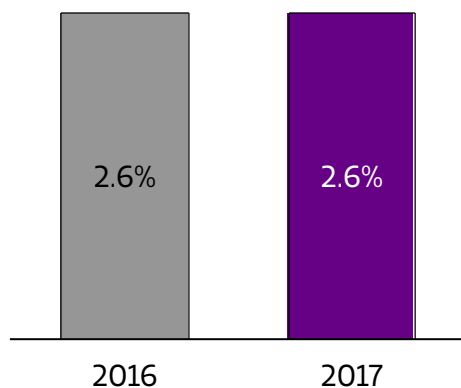
## Large

Elevated large loss experience, particularly in UK Commercial Property, UK Marine and Canada Commercial Lines

## Prior year

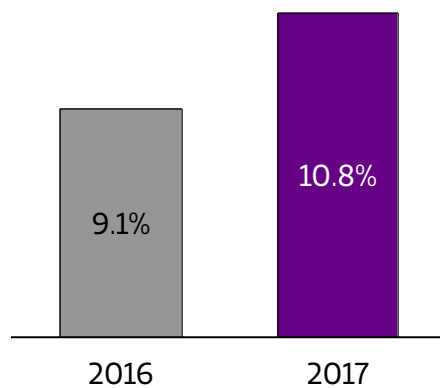
All regions contributed to positive prior year development

### Weather ratio



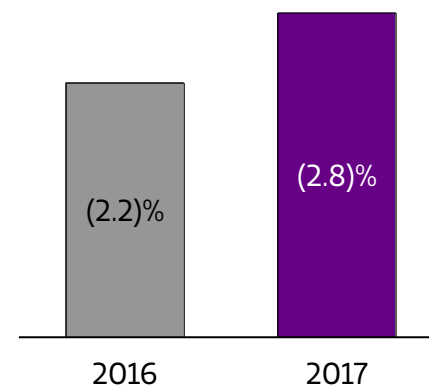
- 5 year average: 3.2%

### Large loss ratio



- 5 year average: 9.0%

### Prior year ratio

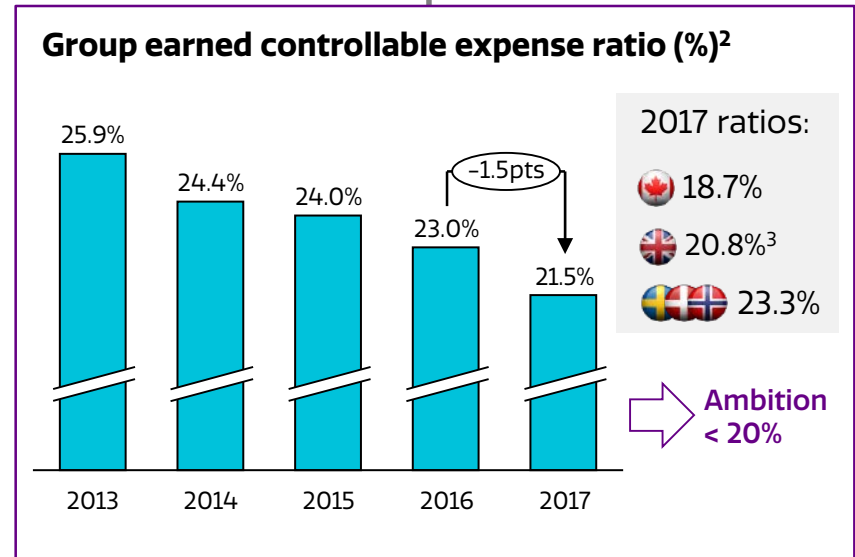
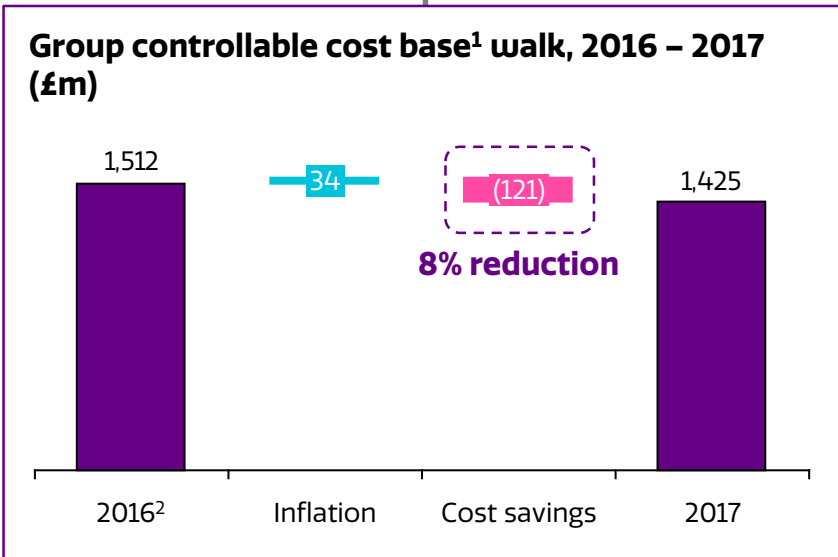


- Reserve margin 5%

- 2016 ratios are for the Group excluding disposals and are at constant exchange
- 5 year averages are for the Group excluding disposals and for 2013 to 2017 inclusive

# COST SAVINGS TARGET

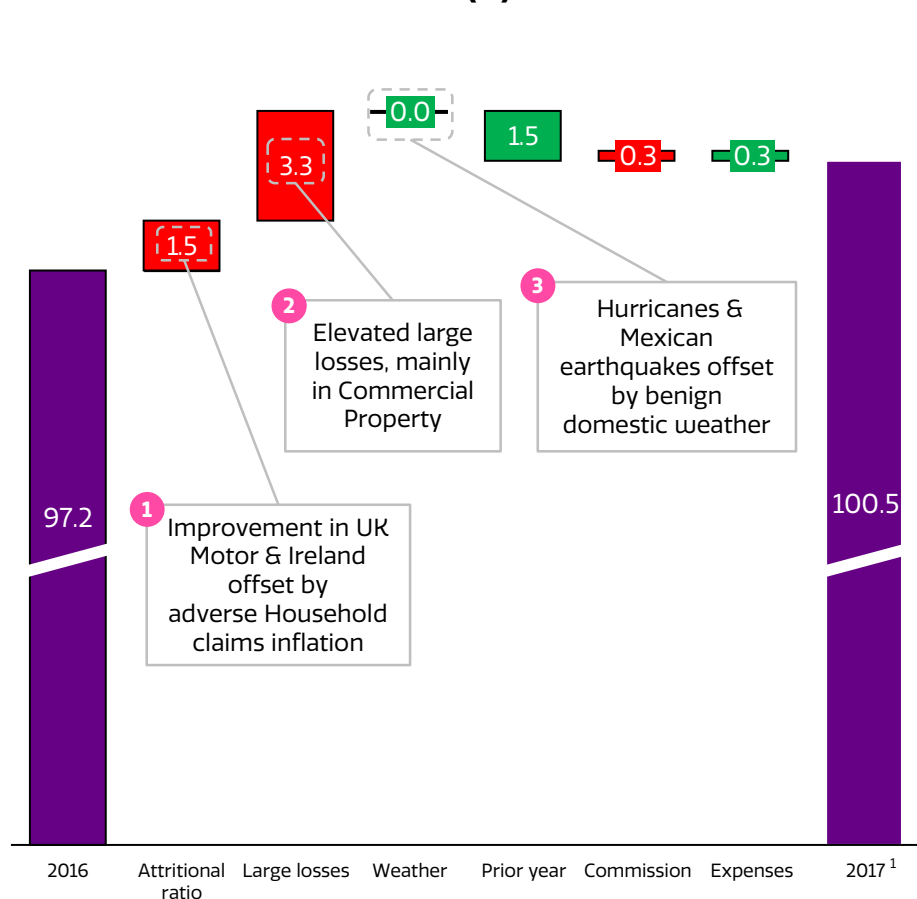
- Reductions** → Controllable cost savings of 8% (gross) versus 2016, with all regions contributing
- Total savings** → Total programme cost savings of £395m since end 2013, up from £290m at end 2016
- Outlook** → Cost savings target upgraded for a fourth time to >£450m by 2019. No more 'below the line' restructuring costs planned





# A DISAPPOINTING YEAR FOR THE UK

UK&I COR walk 2016 to 2017<sup>1</sup> (%)



## 1 Household claims inflation

- Higher market-wide<sup>2</sup> claims inflation, driven by 'escape of water'
- 4 of the top 10 players increased new business prices by >10% in H2 2017<sup>3</sup>
- RSA taking strong action in 2 areas:
  - **Pricing:**
    - ✓ 2017 rate by channel ranged from +4% to +9%
    - ✓ For discrete H2, rate ranged from +5% to +13%
  - **Claims:**
    - ✓ Improving our claims management process, from initial assessment to resolution
- Actions earn through in 2018 and early 2019

<sup>1</sup> Proforma for net aggregate reinsurance recovery and excludes the impact of the Ogden rate change

<sup>2</sup> ABI 3 year inflationary average at 10% for 'escape of water'

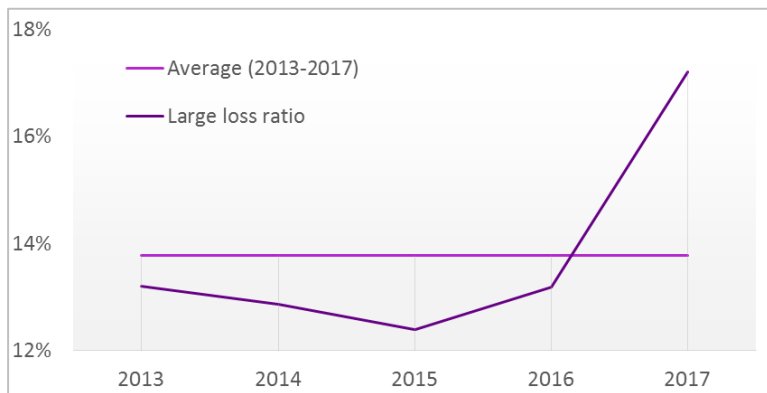
<sup>3</sup> Consumer Intelligence market research new business data

# A DISAPPOINTING YEAR FOR THE UK

## 2 Large loss volatility

- UK large loss ratio<sup>1</sup> 3.4 points > 5 year average
- Losses concentrated in Commercial Property
- Large loss triage found most risks well underwritten; however, always some areas for improvement
- Relevant pricing and underwriting actions well underway
- Purchased lower reinsurance layer for Motor for 2018
- Group Volatility Cover renewed

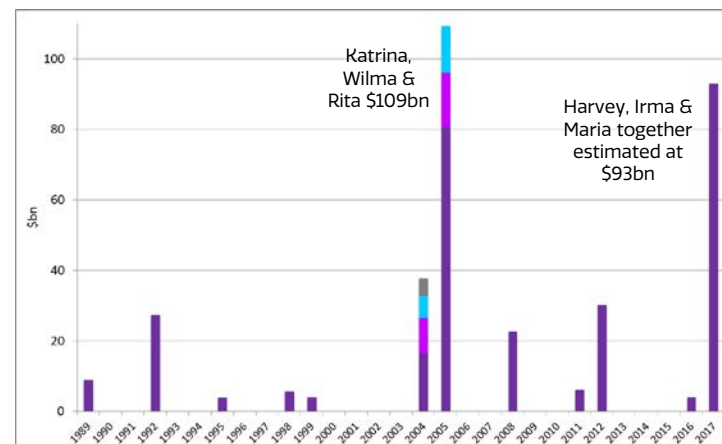
Large loss ratio<sup>1</sup> trends (%)



## 3 Event weather

- 2017 one of the highest years of Nat Cat losses on record
- Hurricanes and Mexican earthquakes cost RSA £72m net
- Losses mainly in 'London market' Property and Marine
- Reinsurance protection, together with benign domestic weather, meant that UK weather loss ratio of 3.1%<sup>2</sup> was flat versus 2016

US/ Caribbean hurricanes by insured loss (\$bn)<sup>3</sup>



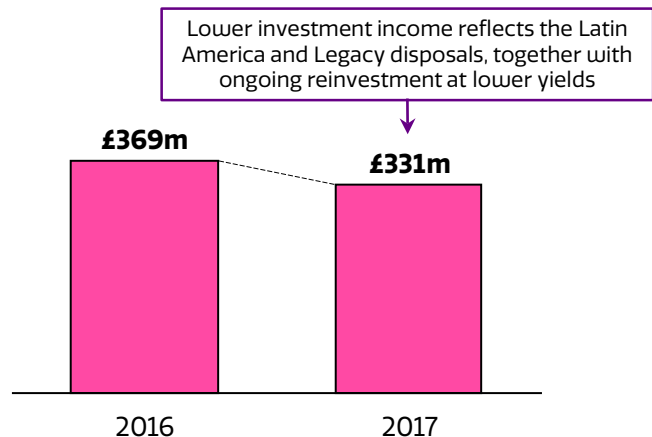
<sup>1</sup> Excludes the impact of the Ogden rate change

<sup>2</sup> Proforma for net aggregate reinsurance recovery

<sup>3</sup> 20 largest hurricanes by insured losses (1970-2017) indexed to 2016; source: Swiss Re

# INVESTMENT INCOME

## Investment income 2016 v 2017



### Key comments

- Investment strategy unchanged: High quality, low risk fixed income portfolio
- Average income yield on bond portfolios over 2017 of 2.5% (2016: 2.6%)
- Average reinvestment rate on bond portfolios during 2017 of 1.4%
- Unrealised gains of £428m (£397m relating to bonds) reduced by £201m or 32% in 2017, driven by UK Legacy disposal, bond pull-to-par and higher yields

## Investment income guidance 2018–2020 raised reflecting market moves

£m	2018 guidance	2019 guidance	2020 guidance
Investment income	c.£285–310m	c.£275–300m	c.£270–295m

### Key comments

- Guidance based on forward yields and FX
- Bond pull-to-par element of unrealised gains should largely unwind over the next 3 years. Capital impact less than £100m in 2018, falling sharply in 2019/ 2020

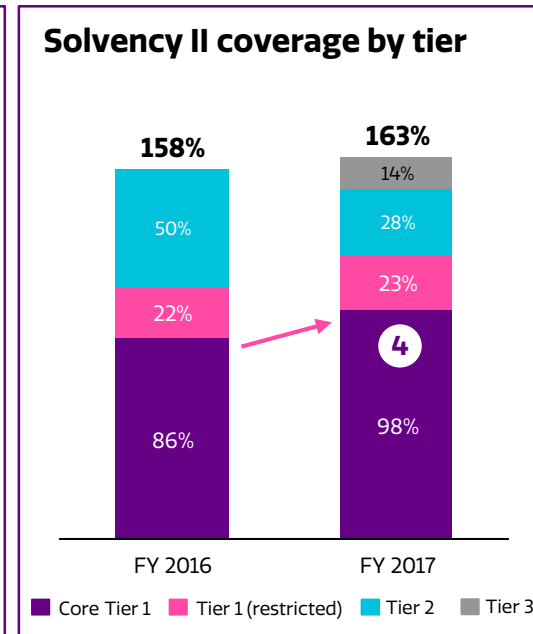
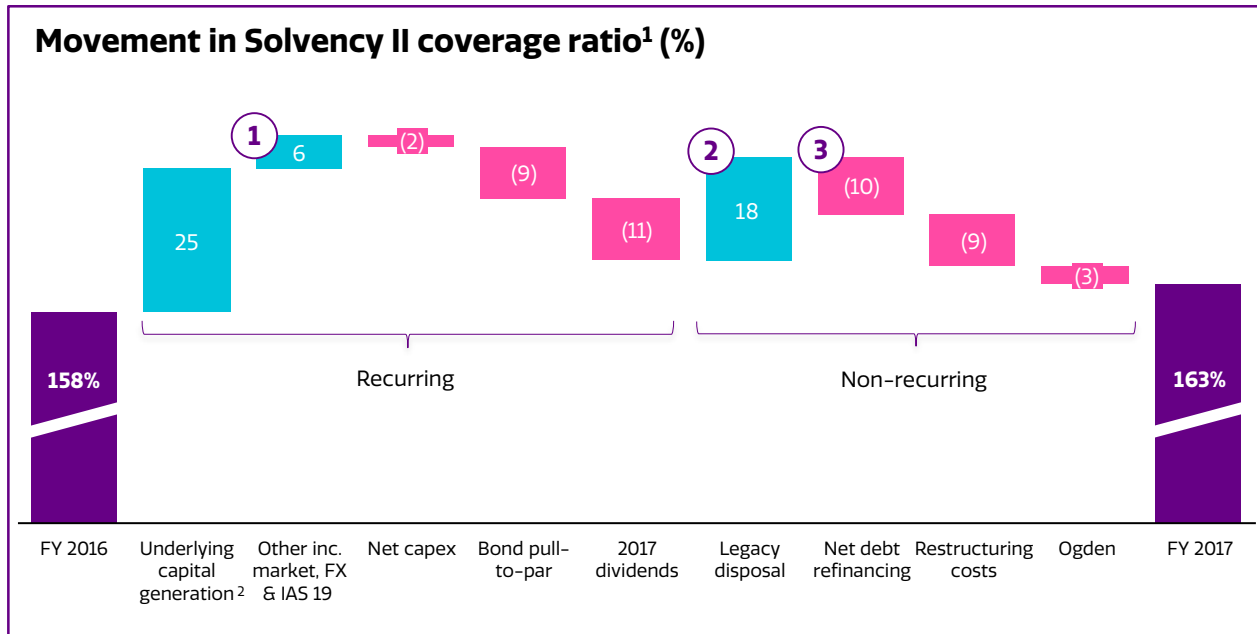
# STATUTORY PROFIT AFTER TAX £322M, UP FROM £20M

£m	2017	2016
<b>Operating profit</b>	<b>663</b>	<b>655</b>
Interest	① (43)	(99)
Other non-operating charges	② (172)	(465)
<b>Profit before tax</b>	<b>448</b>	<b>91</b>
Tax	③ (126)	(71)
<b>Profit after tax</b>	<b>322</b>	<b>20</b>
Non-controlling interest	④ (33)	7
Other equity costs	⑤ (20)	(9)
<b>Net attributable profit</b>	<b>269</b>	<b>18</b>

## Key comments

- ① Interest expense halved following debt deleveraging; 2018 run-rate c.£25m
- ② 2017 primarily £155m restructuring costs; Legacy disposal gains offset debt buy-back costs
- ③ Effective tax rate 28% includes one-off Canadian withholding tax<sup>1</sup> cost. Underlying tax rate of 22.1%, both trending towards 20% over next few years
- ④ Primarily Middle East minorities driven by performance and one-off goodwill impact linked to Oman IPO
- ⑤ Includes £11m coupon costs for £300m restricted Tier 1 debt, reflected directly in equity (annualised £14m). Also includes £9m preference dividend

# SOLVENCY II POSITION



### Key comments

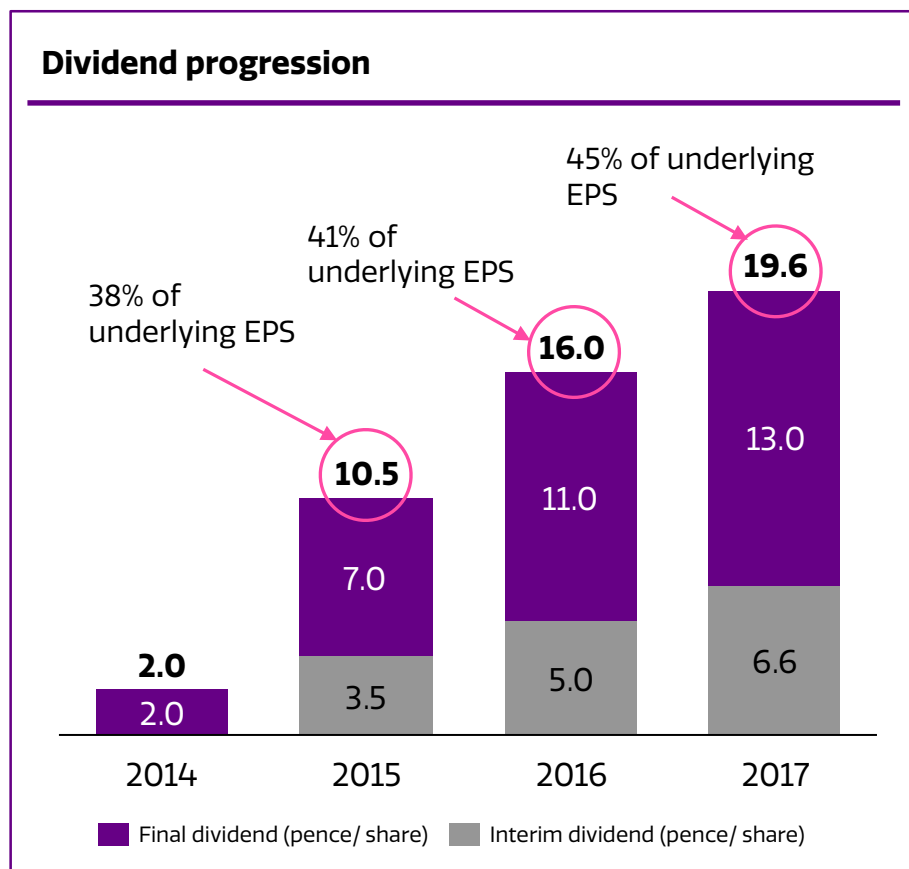
- ① Mainly IAS 19 movements, including annual update to mortality tables
- ② Benefit of disposal of UK Legacy liabilities
- ③ Net impact of 2017 debt retirements and new debt issue in Scandinavia
- ④ Capital quality improved with Core Tier 1 increased by 12 points to 98%

**Target range 130–160%: Prefer to operate towards top end of range**



<sup>1</sup> The Solvency II position at 31 December 2017 is estimated; <sup>2</sup> Capital generation represents profit after tax attributable to ordinary shareholders, adjusted for changes in intangible assets, deferred acquisition costs and other non-capital items

# DIVIDEND PROGRESSION

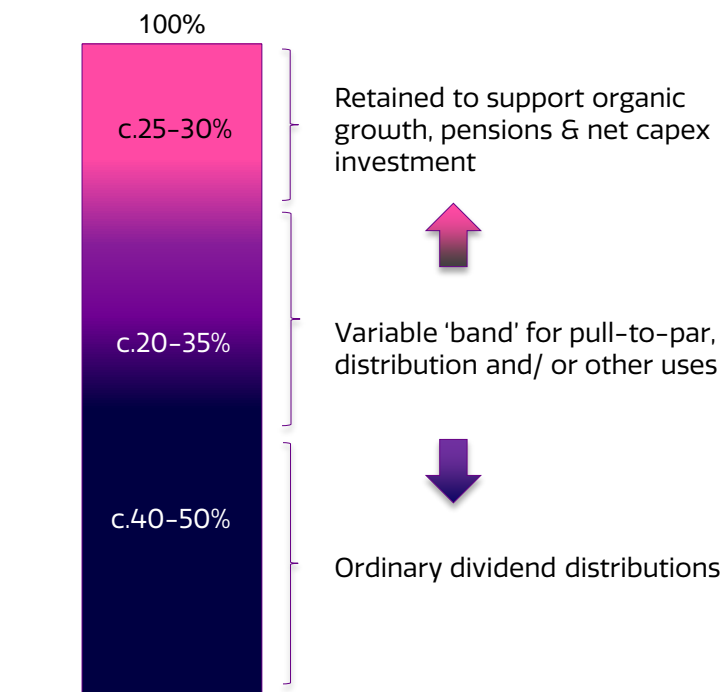


## Dividend payout

- Total dividend for the year of 19.6p per ordinary share (2016: 16.0p)
- Comprises 13.0p final dividend and 6.6p interim dividend
- Up 23% from 2016
- 45% payout of underlying EPS

# DIVIDEND OUTLOOK

## Illustrative use of earnings



## Earnings and dividends

- Attractive earnings progression our goal, with increasing proportion available for distribution
- Around 25-30% of earnings used for organic growth, net capex investment and pensions
- Continue to plan for base dividend payout of 40-50%
- Leaves a variable 'band' of 20-35% for additional distributions, to fund pull-to-par or for any other need
- Pull-to-par effect impacts 2018 to 2020, but to a sharply decreasing extent
- Emphasis will continue to be that shareholder reward follows performance, but doesn't lead

# 2018 OUTLOOK

- ① Disciplined top line growth, building on the positive trends of 2017
- ② Continuing to drive underwriting performance in every region towards best-in-class. Scandinavia and Canada delivered excellent results in 2017, but there is scope for further progress
- ③ Performance ambition for UK & International unchanged; focused on actions needed to get the business 'back on track'
- ④ Pushing ahead with actions to deliver higher cost savings target and drive earned controllable expense ratio towards ambition of < 20%
- ⑤ Operating profit falls more 'cleanly' to bottom line from 2018



**Q&A**