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**RSA**

Preliminary Results Presentation  
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**RSA**

**Stephen Hester, Group Chief Executive**

**Charlotte Jones, Group Chief Financial Officer**

**Scott Egan, Chief Executive Officer, UK&I**

**Questions From**

**Freya Kong, Bank of America**

**Andreas Van Embden, Peel Hunt**

**Greig Paterson, KBW**

**Dominic O'Mahony, Exane BNP Paribas**

**Barrie Cornes, Panmure Gordon**

**Faizan Lakhani, HSBC**

**Andrew Crean, Autonomous**

**Ben Cohen, Investec**

**Business Review****Stephen Hester, Group Chief Executive**

Perfect, good morning everyone. Thank you for joining us. We seem to be a slightly diminished band here; I don't know whether analysts are particularly affected by snowflakes in the Home Counties or other problems in getting here. But in any event at least it's a webcast, so thank you all for joining us.

The format is the same as usual; Charlotte and I will canter through the slides of our presentation. And then obviously we'll do Q&A. And welcome to my colleagues who are sitting here on the front row who may get tossed any of the more difficult questions.

You'll see immediately, for which I only half apologise, the impact of Scott's cost cutting programme in the UK because we can no longer afford to do slides across two screens, only one. And so you'll have to squint a little bit and see the left hand slide only but you have got them on your laps in terms of the packs.

I guess the summary of our feelings about 2019 on which we're reporting, is that we think that the Group did well and we think that our results are strong. You can see that obviously in terms of profits up on all measures.

You can see in terms of the ongoing business, underwriting profit £405m, combined ratio 93.6, both of these are I believe all-time records for RSA. And that's 44.5p per share and a return on equity in the upper part of our target range.

So we're pleased with that as a starting point, and of course beneath that it is driven by underwriting progress which is a function of the pricing and the underwriting actions that we've taken in every region. And you can see that as you go through the different aspects of the P&L which Charlotte will take you through.

Although there are highlights to talk about across the business, clearly one of the most important things we had to do was turn around our UK business which we have been struggling with. And I think while there is much more to do, we are reporting for the region, UK&I, a 95 combined ratio, a return to some level of form and a good basis on which to go further. I mentioned the cost reduction programme; we'll talk more about it.

And so all of that is allowing us to put our dividends up by 10%, that's a 52% payout ratio. And you'll see that we are also, and we'll talk about this some more later, able to increase our dividend payout ratio target from 40% to 50%, to 50% to 60%, and our capital remains robust.

But it will continue to be very much our philosophy that we will keep a strong balance sheet, we will focus on quality of earnings and dividends will follow profits and not lead them.

So moving into my part of the presentation. At the beginning of this year, and in the light of a setback that we had, the only year of setback we've had since 2013, in 2018, we set some particular goals for 2019.

If you like a simple scorecard is on this slide. We continue to believe that our business can be managed towards a best in class financial targets and ambitions so we are reaffirming those.

One of our major tasks for this year was to keep going in the areas that were performing well. Although I'm generalising a little bit broadly, that was our Personal Lines businesses, which were performing very well in 2018. And have performed even better in 2019, which as something like 60% of the group is clearly important to us.

So we were able to do that and we were able to keep our cost discipline, with costs flat or down 2% real, despite significant investment in the business in technology in particular.

But in addition to keeping the good things going and making them better, we needed to fix some things that were not going well. So we have decent progress to report on that also.

The Exits are largely implemented, roughly £250m of premium out from our London Market businesses. Only £15m left to run off in terms of premium this year and some tail a bit after that.

And related to that we restructured the UK, we'll talk about that some more later, we've put in place UK cost programmes and so that's, if you like, tidying up the whole refocus area to allow us to perform better.

My reflection so far, looking at both the losses on the lines that we have exited and at competitor results in comparable business lines, whether from Swiss Re or Allianz or XL, is it feels to me like it has been the right thing for RSA to make these portfolio exits.

But away from the portfolio exits there was a lot more we wanted to do in our Commercial Lines businesses to improve our underwriting success. In terms of constraining volatility we put in place new reinsurance programmes, which in my view unfortunately we needed in both Canada and Scandi, but at least we got some value for them in Canada and Denmark.

And the Commercial Line improvement has shown large losses have come down in every region. We've got attritional loss improvements, the UK&I has bounced back nicely into profit. And while Canada and Denmark Commercial Lines are still not in profit, I confidently believe they will be this year as our actions earn through.

So now let me if you like stand back and go through the normal slides that I take you through in terms of what we're trying to do on our progress. The strategy is unchanged so I won't dwell on this one but the fact that it is unchanged is the platform which enables us each year to try and grind out improvements overall. And it remains the case that we are happy with the balance of our business in the round across our three territories, their complementary and our ability to manage within them.

We're trying to do the same things every year, we're trying to do better for customers, we're trying to underwrite smarter, and we're trying to be more cost efficient. Nothing about those levers has changed, nothing about our own ambitions has changed or what we think we can accomplish.

So how did we do in 2019? If we start with the first of those levers, customers, I would say in the round when we're happy with our underwriting, our customers are happy with us and you say retention at good levels, even improving and indeed growth.

Where we're not happy with our underwriting and having to take underwriting actions, be that price or otherwise, inevitably there is some volume loss as a consequence of doing that. But it is necessary for us to be fit and healthy and to be able to serve customers well and on a sustainable basis going forward.

So that's the story if you like of our customer metrics for the year, we're happy that they're in the areas we want, are positive. And the areas we needed to fix are reflective only of our fixes; the franchise is in good shape.

Turning to the underwriting which was the key task, key task in every year, but key task for 2019. You'll see pleasingly we have re-established the positive downward trend which is really an exceptional achievement over the last five years of our attritional loss ratios. At the Group level you can see that, and you can see that in every one of our regions. You can see it also if you cut Personal Lines and you can see improvement in Commercial Lines. And I believe this can continue into 2020 as some of our 2019 actions have obviously not fully earned through.

We probably will stay on the flat side in attritional loss ratio in Scandinavia because once we normalise large losses in Denmark, assuming we do, our attritional loss ratios are consistent with what we need to have in best in class. And they'll be getting there quite soon in Canada and in the UK, hopefully after some more progress this year.

Cost remains crucial for us and of course in a difficult top line moment when we were taking stuff out of the top line, our cost ratio has slightly deteriorated, even though costs are down in real terms and flat, we plan to fix that. Not least through the UK cost programme and so we continue to believe that we're on a track to the better than 20% cost ratio that we're aiming for overall and in each region.

Turning to a couple of different cuts on our underwriting. As I mentioned our Personal Lines areas in the round have continued to be a source of strength for us and we're reporting a better than 90% combined ratio for the second year in a row across the board. Of course that varies regionally, and we're also reporting volume growth in the strongest areas of those businesses.

When we turn to Commercial Lines this has been our relative headache, as it has been of course for the market as a whole. And the good news is we have significantly better results this year, but not nearly as good as they need to be.

The exits have been executed well as I mentioned, the combined ratio on a continuing basis is down at 98 and change. And I believe that the key remaining fixes in Denmark and Canada should be coming through as we see the results this year. Of course there's always random volatility but we feel that we're doing the right things in Commercial Lines but we acknowledge that we need to get that Commercial Lines result down to more like a 95 over the next couple of years if we can.

Looking at the business on a regional basis as opposed to a business line basis. Starting with Scandinavia, our profits on an FX adjusted basis are roughly flat on the prior year but you could argue better quality in the sense that they're less PYD reliant and more coming from the current year.

But the pattern is very similar to 2018, really excellent stand out, best in class performance in Sweden. And importantly that has extended across our Swedish Commercial Lines business which previously was not performing so well in addition to the powerhouse of Personal Lines.

Danish Personal Lines are also reporting combined ratios in the 80s which is where we want them to be and we're very happy with that. So the one that we need to do is to fix the Danish Commercial Lines result. You'll see that we've taken a lot of underwriting and pricing actions and there's some more taken in our 1/1 renewals, which will have a top line impact but we believe we'll see much better loss ratios this year.

We also made some important management changes in Scandinavia, we have a new head of Scandinavia, Ken Norgrove who very successfully rebuilt our Irish business in recent years and has, if you like, underwriting at his core of his lifetime experience and so he's settled in well.

And we're delighted to have been able to attract Christian Baltzer who many of you will have known has the CFO of Tryg, our big Danish competitor, to run Codan in Denmark. And so I think that those two changes, in addition to a series of other changes in the business will help us achieve the underwriting success that we believe we can in Denmark. And that in turn is the key to the whole of Scandinavia hitting our best in class targets, which we believe it will and can.

Turning to Canada, in some ways maybe our brightest spot this year in the sense that our combined ratio rose very substantially to 94.5 and is driven even more by current year than previously. And I think when all of the competitor results are in, that might for the first time put us in the pole position in terms of Canadian profitability. These things of course bounce around year to year so we won't declare any great victory, but nevertheless we're really happy with the concentration on underwriting we've had in Canada and the improvement.

The hard market has helped everyone, everyone will have improved results and you can see that not only is Johnson continuing to be our powerhouse, both in terms of growth and profitability. But all of our Personal Lines Broker businesses are now decently profitable and Commercial Lines is the remaining area that we have to get right to drive this still further.

The prospects look good in 2020 for driving that further in terms of the rate momentum, although the caution obviously with Canada in particular is it's a volatile place in terms of weather in particular, so far, so good this year.

And the UK and International, as I mentioned earlier on, very pleasing to be able to report a combined ratio of 95 for the year. This is driven by a combination of standout performances continuing in Ireland and the Middle East. A significant turnaround in our European branch businesses and a good turnaround in our UK business and although our UK domestic business remains at a combined ratio that is below our ambitions, it's not that much different than the major competitors who've reported their UK divisions so far. So I think it's okay as a starting point and we're confident we can move forward and in 2020 not least through the cost lever which we've talked about.

So really pleased to have regained our footing there. Very conscious that one year does not yet make a trend. What we're going to do, slightly unusually, is have Scott just talk

in a little bit more detail at the end of our presentation on a couple of slides on the UK because I know it's been important to all of you to see us do better in that area.

So that was really what I wanted to say. Our performance ambitions are unchanged. We believe our business can meet them, it won't meet them in a straight line and there are definite headwinds that we need to be cognisant of but we're clear where we're trying to go and I believe that we have some momentum in getting there. And so with that let me hand over to Charlotte. Thank you.

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## **Financial Review**

### **Charlotte Jones, Group Chief Financial Officer**

Thank you Stephen, and good morning everyone.

For my first RSA year end as CFO, I'm very pleased to be reporting such a strong set of results for 2019. Particularly so given the challenging 2018 results we reported a year ago.

As Stephen said all total Group profit measures are up year on year, reflecting the effective underwriting and other actions that have been taken.

I'll start now on slide 23 with an overview of the numbers before walking through the P&L and capital in more detail.

Group net written premiums of £6.4bn were down 1% at constant FX, this was flat excluding the exited portfolios and changes in reinsurance.

We are pleased with Personal Lines growth in Canada and in Sweden and while Commercial Lines across the Group were down, this is largely in response to underwriting and pricing actions.

Group underwriting profit was £405m excluding the exit portfolios, with a combined ratio of 93.6. The current year underwriting result was very strong, attritional claims, large losses, and weather ratios all improved compared to 2018.

Prior year development was positive but lower than in recent years. This was reflecting refinements to loss estimates from the 2018 accident year, and also included the impact of the change in the Ogden rate.

The business operating result was £656m excluding the exit portfolios. Within this investment income decreased, as expected, as bond yields fell further.

Statutory profit after tax of £383m was 3% up on 2018. This was despite the impact of Exits as well as other charges such as the UK restructuring costs.

Underlying EPS excluding exits was 44.5p, and on the same basis underlying return on tangible equity was 16%. This is towards the top end of our target range of 13% to 17%.

Finally tangible equity was up 1% driven by profits and fair value mark to market gains, partly offset by investments in intangible assets and dividends.

I'll now go through some of the areas in more detail, starting with premiums on slide 24. Now we've prepared the slide on a constant FX basis and excluded the impact of reinsurance changes, to allow you to make a clear comparison on a like for like basis.

Premiums of £6.4bn were 2% down underlying but flat excluding exits. Scandinavian Personal Lines premiums of £1bn were flat. In Sweden where we have the Group's most profitable portfolio, premiums grew 2%; Household, Motor and Personal Accident were all up. However, both Denmark and Norway were down, driven by lower Household premiums.

In Scandinavian Commercial Lines premiums grew 2% on an underlying basis to £721m. Rate action was ahead, both of our plans and the prior year, in all lines of business. However, the impact on premiums was dampened by a 4% decrease in volumes. We wrote less new business where we are taking the most action to improve performance, most notably in Commercial Motor and Property. We expect premiums to be down in Danish Commercial in 2020 reflecting the ongoing impact of these actions.

Personal Lines in Canada grew 6% to £1.2bn. Pricing conditions continued to be favourable and we achieved high single digit increases across our products and double digit in certain areas.

This is helping us to tackle ongoing and significant claims inflation and build an allowance for heavier weather losses expected as a result of climate change.

Premiums grew 13% in our most profitable portfolio, Johnson; this included 7% organic growth, as well as a strong contribution from our new partnership with Scotia Bank. Despite applying strong rate, retention remained robust at around 90%. In Personal Broker premiums were down 3% as we continued to take action to improve the performance in the portfolio.

Commercial Lines premium lines in Canada decreased by 4% to £490m, where a 13% reduction in volumes was partially offset by rate increases of 9%. These lower volumes were in line with our plans and mainly driven by targeted lapses. Continued underwriting action is required to address performance and we expect volumes to be slightly down in 2020.

Turning to the UK&I, Personal Line premiums in the UK were down 10% excluding Exits to just over £1bn. Household was down 7%, excluding the sale of Oak Home. And importantly we have continued to achieve good rate increases in our Household portfolio.

The positive new business trends in More Than Home that we reported at the half year continued, as we look to gradually rebalance our portfolio towards direct business. Motor and Pet premiums also contracted in 2019. While retention improved, new business was impacted as we held our discipline on rate.

Commercial Lines premiums which now exclude Europe which is reported separately were up 5% excluding Exits. Rate was positive across all major lines. Marine achieved nearly 10%, while Commercial Property achieved 6%. And our regional business continued to show good momentum over the second half, with strong new business growth in Property and Packages.



Now I'll turn to slide 25 to look at the drivers of the underwriting results. As I said the Group's underwriting result of £405m, excluding Exits, was achieved with an excellent combined ratio of 93.6%.

The attritional and large loss ratios improved in all regions compared to 2018, while lower commission and more benign weather also contributed. Against this the expense ratio increased slightly, as expected, and prior year development whilst positive, was lower than recent years.

Looking at the headline underwriting performance in each of our regions. In Scandinavia the underwriting result was £223m, down 2% on 2018 at constant FX, with a combined ratio of 87.4. This reflected an improved second half performance following the 89% we reported at the half year.

Personal Lines remained excellent with a combined ratio of 78, attritionals and expenses improved again. Commercial Lines increased to 101, attritional performance was slightly adverse, whilst larger losses although improved, remained elevated. Danish Commercial Lines drove the underperformance with Property classes particularly impacted.

The Canadian underwriting result was £94m, more than treble the 2018 result. The combined ratio improved by 4 points to 94.5. Personal Lines improved by over 6 points to 91%. The attritional loss ratio improved by 1.5 points, with Personal Auto about 2 points better. Weather and large losses were also lower than 2018.

Commercial Lines deteriorated to 102.3, although the current year performance improved by nearly 6 points. Significant action has been taken in Property and Auto and these actions are continuing in 2020 to drive improved business performance.

Finally on UK and International the underwriting was £144m excluding the Exit portfolio. With a combined ratio of 95% on the same basis or 97% for UK&I overall. Within this the UK business itself reported 97.7 excluding the Exits. And the European business, shown separately here for the first time, delivered a COR of 92.6% also excluding their Exits.

Ireland and Middle East reported excellent results again with combined ratios of 87% and 83% respectively. These both included strong prior year development which we expect to normalise somewhat in 2020.

Now let's take a closer look at loss ratio movements by region on slide 26. In Scandinavia the loss ratio of 69.8% was broadly flat compared to 2018. With current year performance about a point better. The attritional loss ratio was broadly flat, or 0.3 points better excluding the impact of reinsurance changes. Significant improvements in Norway were offset by Danish Commercial, mainly Property, and Sweden to support top line growth.

Weather was flat versus 2018 and in line with the five year average. Large losses improved by about a point but remained elevated compared to the five year average; driven by Danish Commercial Lines. Loss frequency increased in both the Property and Tech lines and we have taken strong action in Danish Commercial to reprice, to re-underwrite and reduce capacity where required. Prior year development though positive was just over a point lower than in 2018.

In Canada the loss ratio improved by over 3 points to 68.2% with strong improvement in the current year performance. We're very pleased to be reporting an improvement of 2 points in the attritional loss ratio. This was better across all major lines of business; Personal Auto was 2 points better and Personal Property 1.2 points better. It reflects the strong rate beginning to earn through and the other actions we've taken. And while weather was nearly 2 points better than the prior year, it was again above the five year average.

Insured CAT losses for the industry in Canada were over \$1.3bn Canadian dollars, the seventh worst year since records began. The large loss ratio was nearly 1.5 points better but remained elevated compared to the five year average; impacted mainly by Commercial Property. And prior year development was 2 points lower but still positive.

Finally, the UK and International loss ratio also improved in 2019 to 61.3%, excluding the Exit portfolios. The attritional loss ratio improved by about 1.5 points. Within this UK Household improved by 2.5 points, as strong rate continued to earn through. Pet also improved whilst Marine and Motor worsened. In 2019, weather was relatively benign in the region and was over 3 points better than 2018 and below the five year average. Large losses were nearly 4 points better with strong improvements in Property and Marine.

Our prior year development was lower than 2018, this reflected further refinement on the loss estimates for the 2018 accident year and including the impact of the change in the Ogden rate. While it was slightly adverse overall for the UK and International it was favourable once we exclude the Exit portfolios.

Now let's turn to the overall impact of what we term 'volatile items' on slide 27. Overall excluding the Exit portfolios, weather and large losses were 2.5% and 9.7% respectively, they were both lower than 2018. Compared to five year averages, weather experience was slightly better, whilst large losses were broadly in line.

Overall, prior year development gave a 0.8 point benefit to the combined ratio, excluding the Exit portfolios, this was significantly lower than the 2.6 point benefit in 2018, for the reasons I've already explained. It was also much lower than the experience in recent years and our five year average of around 2%. We continue to plan conservatively in this regard at about 1%.

And finally our reserve margin remains at our target level of 5% consistent with previous years.

Now moving to costs on slide 28. The earned controllable cost ratio of 20.9% was slightly higher than last year, as expected, mainly due to the impact of UK business exits. However, on a written basis controllable costs were down 2% in real terms.

Two specific regional comments I would like to make here. Firstly in Canada, an already low cost ratio improved to 16.9%, better than our plans, and I would stress that our previous guidance remains, whilst the cost ratio is expected to remain below our target level of 20%, higher software amortisation charges will increase in 2020 and going forward.

Secondly, the UK and International controllable cost ratio increased by about a point due to the premium contraction in the UK, mainly associated with the exit portfolios.

As we reported at the half year a UK cost programme has begun. The programme is targeted at the removal of over £50m of costs by 2021. To achieve this we are targeting the key levers of organisational design, premises and IT costs to simplify and further automate our business. Associated restructuring costs of around 1.3 times are expected, with £27m booked in 2019 and the remainder to be booked in 2020. We remain focused on progressing towards our 20% target in each region.

Now moving to investment income on slide 29. Gross investment income of £306m was 5% lower than 2018. This reflected the impact of reinvestment at lower yields, offset by a slight increase in exposure to illiquid investments.

There has been no change to our strategy, our portfolio remains dominating by high quality, fixed income with around 90% of our bonds rated 'A' or above.

The average book yield on the bond portfolio was 2.1%, while the average reinvestment yield on the bond portfolio was 1.2%. Now since year end, yields have fallen further with a continued relatively flat forward curve. Clearly there is continuous market volatility and based on current forward yields and FX we are forecasting investment income of between £255m and £270m in 2020. The 2021 and '22 numbers are also included on the slide for your information. These projections represent a further decrease as lower yields earn through.

Balance sheet unrealised gains increased by £121m over the year to £371m and yield movements since year end have further increased this. This is mainly driven by positive mark-to-market on bond holdings due to declining government yields and tightening credit spreads.

The higher balance in unrealised gains, together with the flat yield curve mean that the predicted time for the unrealised gains to unwind has increased. If yield curves were to stay as they currently are we estimate the gains would take around 7 to 8 years to fully unwind, with around 50% of this within the next three years.

So in terms of the numbers we estimate around £80m post tax for 2020. A capital impact of this amount is around £70m with the balance being projected yield change. This capital impact is expected to fall significantly in '21 and '22. Of course this profile assumes current market yield curves and clearly further yield development will impact this trajectory.

Moving on to other charges and statutory measures of profit on slide 30. A few things to highlight here, interest costs increased slightly in line with guidance, this reflects the adoption of IFRS 16 on leases from the start of 2019.

Other charges included the £27m of UK restructuring costs, £19m for the completion of the UK's legacy sale and £15m from a reduction in the discount rate on long term insurance liabilities in Denmark. Neither the completion of the UK legacy sale, nor the change to the Danish discount rates impact capital negatively.

And as I said at the outset all total Group profit measures were up year on year, the total Group business operating results of £597m was up 15% and the statutory profit after tax of £383m was up 3%.

Now moving to capital on slide 31. Our capital position and quality remain strong with a coverage ratio of 168% and a Core Tier 1 ratio of 106. We generated 27 points of

capital from underlying earnings in 2019 with net capex and pension contributions absorbing 7 points of this.

Now both major UK pension schemes remained above their caps at year end. And this means the contributions into the schemes are not fully eligible from a capital perspective. However, for each scheme the surplus over the cap acts as a shock absorber for future market movements before there is an impact on our capital ratio.

In terms of the other movements I'd highlight the impact of bond pull to par which absorbed 4 points of capital generation, and UK Exits and restructuring costs which together absorbed about 5 points.

Finally the impact of market movements was marginally negative and broadly in line with our published sensitivities on an 'ex pensions' basis. It is shown here netted against other small impacts including a modest, positive impact from the completion of the UK legacy sale.

Now moving on to dividends on slide 32. We have announced today a proposed final dividend of 15.6 pence which gives a total dividend for 2019 of 23.1 pence. This is up 10% from 2018. It represents a 52% payout of underlying earnings, calculated excluding the impact of the Exit portfolios.

We have raised our target ordinary dividend payout range from 40% to 50% to 50% to 60% of underlying EPS. Reflecting performance improvements and increased resilience of the Group.

And so the conclude on slide 33, we are pleased with the strong set of numbers for 2019. This includes total Group profits being up on all measures and an excellent current year underwriting performance.

Our Personal Lines businesses continued to perform strongly, with a combined ratio of 88.5% excluding Exits.

In Commercial Lines we've made significant progress on our improvement actions but work continues, particularly in Denmark and Canada.

And progress in the UK&I has been particularly positive. There is much to do including completion of the UK cost programme.

And finally as Stephen mentioned our ambitions for the Group remain high and unchanged and we are focused on delivering continued progress in 2020. Thank you, and I'll now hand back to Stephen.

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**Stephen Hester, Group Chief Executive**

Thank you very much Charlotte. And one of the things that I say in my written statement that is reminded to me listening to Charlotte present her debut for us, is one of the areas of activity for RSA last year was quite a significant management renewal. With two of our three regional CEOs changing, Charlotte coming into her role and a number of other important changes I mentioned, the Danish Head, UK Personal Lines Head, Middle East, Ireland, all with new Heads. And it's very important of course for any group to renew its management.

It's a pleasure to be able to reward people who've done well and give them bigger jobs and it certainly makes my job easier to be surrounded by talented colleagues. So in that vein, one of my talented colleagues, Scott, might just do two slides on the UK.

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**Scott Egan, Chief Executive Officer, UK&I**

Thanks Stephen, thanks Charlotte. I won't go through the numbers because you've heard them to death. There are a couple of slides in the appendix on slide 35, but I thought what might be helpful is to give you my take overall on UK&I, almost 12 months into the role.

I would characterise 2019 for UK&I as a year of good progress. The Exits, which you heard have been broadly done, which I think is important from a distraction perspective, both internally and externally.

The new organisation, which is quite extensive is now in place and I would say is easier and cleaner for both our staff and our customers to navigate, example would be one Commercial Lines organisation and the separation of our European businesses.

I've made extensive changes to the senior management team, who I would say are settling in well and beginning to execute on our strategy.

And overall our execution in 2019, I think has improved substantially, evidenced by our attritional loss ratio improvements, our large losses being more 'normal' and the intensity, pace, and I would say sharper edge at which the team operate.

And also not to forget I think we've regained, in part, some of our 'trading mojo' during 2019 and that's been evidenced most in the Broker market.

The first cost take out, which both Stephen and Charlotte have mentioned of over £50m, is broadly done, which was necessary given the top line shrinkage, but I was pleased at the speed and the execution.

We have seen early signs of growth in 2019, more importantly where we wanted it, which was More Than Home, where the PIF growth has actually started to move in the right direction for the first time in three years.

And in our regions Commercial business, which is our heartland in the UK, where new business levels were up 35% year-on-year and our retention rate oscillates somewhere between 85 and 90%.

And finally in Middle East and Ireland, an outstanding performance, but more importantly for me the current year combined ratios have also managed to maintain a high level of performance.

So in summary, the UK and Europe pulling more weight in 2019, zero complacency within the UK&I management team and the platform to build in 2020 and beyond.

And if I look ahead my statements for 2020 and beyond would be, I'm afraid, more of the same. So we're not going to go and start doing lots of new and different things. Our

intent is to improve the quality of the earnings within UK and International, which in short means UK and Europe continuing to pull more of the weight.

We'd like to build on the growth in 2019 to show that we can actually grow our top line in Europe and in the UK and in the Middle East and Ireland, but we want to do that whilst improving the profit, it's not a choice.

We want to go again on cost, but more importantly tackle the root cause issues of our costs. And that really means we must simplify the business, particularly in the UK. And those root causes for me are ingrained in too much product complexity, too much IT complexity and processes that need to improve.

A consequence of that will be improved productivity within our business and we target, like the rest of the Group, an expense ratio of below 20%.

Importantly I want to keep developing the capability and the culture within our UK&I business to support the strategy, which really means continuing to improve the levels of intensity, continuing to improve the levels of focus, keep being agile and also maintain a customer mindset within the business.

And finally we want to improve the underwriting performance again. Attritional loss ratios in Commercial Lines need to improve. Our rate needs to continue to be carried in the marketplace and market conditions are allowing us to do that. We would like another 'normal' year large number our belt, but without a doubt there are portfolios within our business that we know we can do better on and we will try.

And in our Middle East and Ireland business, no complacency, and not watching them just drift along; we will continue to invest in those businesses. Both have very strong digital platforms and we will invest further in them in 2020.

So that's how I'm thinking about the UK&I business, our aim is to get this business below 94% over the medium term, we're going to work incredibly hard to do that, but we are very clear that we need to make sure that we deliver performance consistently, one swallow does not make a summer, but we will do our absolute best to do this over the coming years and prove that this is a great business. With that I will hand back to Stephen.

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**Stephen Hester, Group Chief Executive**

Thank you very much Scott.

So we'll turn over to Q&A in a second as I would simply say summarising our presentation bit of this, we think the Group did a decent job last year, we think that the results are strong, we think that they are pretty good compared to the people that we compete against. And most importantly we believe that that gives us a platform to improve again this year and in the coming years.

We are also of course very cognisant that we're in a world of things that can go wrong, whether that's the weather or the Coronavirus, or competitive conditions, or slow economic growth, or low interest rates. There are lots of headwinds that impact businesses of all kinds and that can make insurance businesses volatile and rocky. And so we need to navigate those headwinds, the headwinds will take an edge off our



underlying performance, but all the more important for the things we can control to be in good shape and for us to keep improving them. And so that's what we're going to try and do.

Thank you for listening to us, let's go straight to Q&A. As normal we'll just have some mics come along, so just here at the front.

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## **Questions and Answers**

### **Freya Kong, Bank of America**

Three questions from me please. Firstly, can you walk us through your thinking on increasing your regular payout ratio and where do you expect to operate within this range?

Secondly, UK Personal Lines shrank pretty significantly in the year, excluding the sale, is there any further shrinkage in 2020 and can you clarify what your ambitions in UK Personal are specifically?

The third question, as you've taken underwriting and pricing action to improve earnings volatility, how do you think about the use of reinsurance going forward?

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### **Stephen Hester, Group Chief Executive**

I'll try and remember all of your questions. Let's start with the dividend question. I suppose that we probably are not changing what we actually plan to pay out, but when we came to think about the dividend it was apparent that the previous formula of a lower regular and the idea of regular specials was sort of not really working in the marketplace because people didn't know whether the special would be regular or not, they couldn't build it into your dividend yield, even though we thought they would be regular. And the amounts of money involved in the specials were going to be relatively trivial.

And so we thought that it was probably the time to move to a slightly different formula, where we were emphasising the regular dividend at a higher level and de-emphasising the likelihood of specials, particularly given a higher pull to par.

So the philosophy is completely unchanged, if we were sitting on large amount of surplus capital, we would still think stock buybacks or specials might be a tool to fix that, but what we're trying to do is say that that's not very likely in the next two or three years, but we believe that we can count on a higher level of regular dividend than we were previously signalling.

So we felt that that was a formula, we'll see what you think about it, that would work better for us in terms of communicating to our investor base.

In terms of the UK Personal Lines question that you asked, I suppose we're trying to do a number of different things. The first is that, as we practise everywhere in the Group we have no interest in chasing growth if it doesn't make our shareholders money. And we are quite willing to lose volume if that is the consequence and then to have to go again on costs.

Our ambition is to get into the position that many of our Personal Lines businesses are, where we can both serve shareholders very well and customers well and having growing volumes, and you can see that we have achieved that in Ireland for example, we've achieved in Canada and we've achieved it in Scandinavia. And so it is our belief that we can have a growing Personal Lines business in the UK that produces good profit.

And in fact the direct element of our Personal Lines business in the UK, More Than, does produce good profit. And so strategically what we will be doing over time is making More Than a bigger portion of our total Personal Lines business, which will help profitability, as well as our relationship with customers, which of course is much more direct in that regard.

But it is well publicised that the Motor market has had its struggles of profitability, fortunately we are the most under-represented there and we haven't sought to chase it. The Home market, which is our stronghold, we think that the trends in More Than are pretty good.

So directly answering your question about 2020, I would say the total premiums in Personal Lines in 2020 in the UK will be either flattish or slightly down. But we expect within that to see growth in the areas that are nicely profitable and that we're targeting. And we believe the business can grow overall.

You had a last question, which I've forgotten.

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**Freya, Bank of America**

Reinsurance.

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**Stephen Hester, Group Chief Executive**

Reinsurance, I would say we're happy with the broad structure of our reinsurance programmes. We think that the addition of regional aggregates last year worked for us in two of the three regions, although as I said, I wish it hadn't have done. And so I think all we're going to continue to do is fiddle at the edge. You know every single year we'll sort of optimise at the margins, but the basic structure we feel is about the right place to be.

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**Andreas Van Embden, Peel Hunt**

Just a question about your Commercial Lines business please, you sort of printed around on average 98.5 combined ratio in 2019 and you mentioned you want to get to 95 if we can. I just wondered what would hold the business back from getting to that 95 or better, assuming normal weather patterns.

So forgetting the volatility of the business and just assuming normal weather, where would the business struggle to achieve that 95, or could you do better and what would you need to do to get better than 95?

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**Stephen Hester, Group Chief Executive**

Well our ambition is definitely to be better than 95 and so obviously you know let's - even if you have a high ambition you need to get there in phases and so my first ambition would be get to around 95 from where we are now and then let's see where we take it from there.

The constraint beyond volatility is really what's achievable in the marketplace. I would say in Scandinavia the evidence is that we should be able to do low 90s in Commercial Lines, in Sweden we did about 90 last year, our competitors do low 90s across the piece. And so once we've got on top of the Denmark issues I would expect our Scandinavian business to be capable of low 90s in Commercial as we see the market today.

In Canada it's a more mixed picture, because obviously in Canada you've tended to have Intact at the best end and everyone else somewhere back from Intact. Obviously our ambition is to anchor ourselves in the same territory as Intact, indeed this year we have successfully done that.

But in Commercial Lines they are still performing significantly better than us and so if we can do in Commercial Lines what at the moment we seem to have done in Personal Lines we ought to be able to get to the sorts of numbers we talked about. But that is less of a given, we have to see how the Canadian markets unfold as well as our own relative capabilities. But certainly our plans are to improve from where we are now.

And then that brings us over to the UK&I, and there is probably two different components to that, there is what you might call the internationally exposed businesses, which include some of the big UK businesses and multinational businesses, the remainder of our London Market business, our European businesses, you can see at the moment the marketplace isn't giving anyone 95 or better, which is one of the reasons we shrunk some of those businesses.

There is however a lot of underwriting and rate going through and certainly our view is we're just not going to participate in things we can't in the medium run see our way to making an acceptable return on capital. But clearly there is more of a market question mark in that area.

In what Scott has described as UK heartland business, you know regional type business, we have often in the past operated in the low 90s, not in every area and not all of the time, but we believe it is doable.

And so when I put all of that together, as I say, in a sense my next target is around about 95 and I believe if we got to that target and if we have the relative marketplace behaving itself in our different regions you could then push further.

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**Greig Paterson, KBW**

Good morning, three quick questions, one is I'm not sure if you've given an estimate for the weather in the first quarter so far? In that context I wonder if you want to talk about the global warming theme, because we get a lot of inbound on that, but from a practical perspective what are you doing practically to try and mitigate that potential risk?

And then the third one, cyber - other exotic types of new risks, the sort of modern day asbestos ones, I wonder if you can talk - I think aerosols or something like that, there's a whole bunch of those discrimination, etc.

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**Stephen Hester, Group Chief Executive**

I use roll-on personally.

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**Greig Paterson, KBW**

Yeah, yeah you look healthier. But those sorts of exotic risks, the tempo of news flow coming in at least to us is more and more questions about that, I wonder practically how one is thinking about that?

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**Stephen Hester, Group Chief Executive**

Thank you for those questions. I suppose standing right back, this is a subject that makes me feel cheerful, which of course is counterintuitive, but the simple fact is that there have been various handwringing consultants about how the auto market is going to disappear and car automation means no one will need a car insurance policy any more and it's terrible for insurers. And there are of course lots of industries whose future is in doubt, let's pick coal mining or any kind of extraction of natural resources, as industries whose future is in doubt.

It seems to me the one thing you could say about the insurance industry is our future is not in doubt. The world is chock-a-block of risks, for every risk that comes down there are some other risks that are coming up. I think that we have, as an industry a good future ahead of us and that will underpin if you like the 'solidity' that we represent in an investment portfolio.

And so in that sense as a manager of an insurance company I regard these things as things that make us more important to the world and extend our longevity of customer demand.

But however, of course that also gives us a whole set of things that we then need to underwrite well and deliver to our customers in ways that our customer find appealing to engage with us on.

And so in all of the areas where risk is changing or emerging we are putting extra resources in the first instance to improve our risk assessment, whether that be more accurate flood mapping, or more risk factors involved in things. We are also trying to make sure that our reinsurance is tweaked where we find that relevant. And then we're simply trying to build into our funding base through rates, the ability to afford more of particular kinds of rates.

And that's the clearest in Canada where our rate increases are much more than we would need to hit our targeted profitability if we weren't assuming worse weather trends. But we are assuming worse weather trends to eat up some of that which is why we're rating to the extent that we are and indeed I think the whole market is.

Climate change is clearly the most obvious example for us and property is arguably the biggest insurable class for insurers. And so I think it's pretty self-evident how one goes around trying to prepare for that and to offer customers' support for that.

Some of the other, what we'll call frontier risks, are more complex because as they are frontier risks you have less data on them, less ability to price them accurately and therefore you tiptoe more carefully. And so we certainly are rolling out cyber policies around the world more broadly to pick that example. But we are doing it cautiously, more than 90% reinsured from our point of view of what we're doing because we just simply think there is not enough data available for us to be sure about the underwriting results from them.

There will be other risks that arise; Coronavirus is clearly very much in the news. At the moment with our geographic preponderance in UK, Scandi and Canada we're not seeing any significant claim levels, but obviously the industry will be looking at the areas that those are most likely to occur, travel policies will clearly be one, although that's not a big area for us. And then other kinds of Commercial Line supply chain risks are the others.

Again, at this stage of its development we don't see these as significant issues for RSA, but the whole industry will be looking at them and I'm sure our customers will be looking at their existing policies and there will be demand for different kinds of coverage going forward than currently many of the existing policies offer. And that is both an opportunity and then a requirement for us to do it responsibly.

So in the short run, our business is about absorbing other people's volatility and sometimes that works in our favour and sometimes it doesn't. But in the long run I think it's good for our industry.

You asked a very first question about weather experience in the first two months of this year and I would say in Canada and in Scandinavia it's been better than average. And in the UK obviously it's worse than average driven by February's floods. The first is not a particular drama the second is ongoing, so whether it becomes a drama, obviously it's a drama for the customers involved, but in financial terms, at the moment you'd think the magnitude would be well below the 2015 experience which were the last significant ones.

So at the moment it feels like an issue for our first quarter in the UK, but not a drama for the Group. But all one can say is at the moment and clearly what we're doing right now is focusing on serving our customers rather than trying to add up the bill.

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**Greig Paterson, KBW**

You haven't got any feel for the gross claim amount so far in the UK?

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**Stephen Hester, Group Chief Executive**

The Environment Agency as I understand it have been talking something like - a few thousand claims, flood claims that is as opposed to storm claims, we have about a 10% market share of Household and so we're in the hundreds of flood claims at the moment and you know obviously if it stopped here than that would be one thing, you know if there's a lot more rain on sodden ground then you clearly get more risks.

I think it is worth saying, I mean obviously when you see these on your TV screens they make very good viewing and they tend to exaggerate exactly what is flooded. But there is no doubt that flood is - feels like the biggest climate change risk for the UK going forward, whereas if you were looking at Canada you might be focusing not just on flood but other things like storm and ice and wildfires and things like that.

So global warming will impact different territories in different ways and that in turn will inform you know where we're taking pricing, reinsurance and underwriting skill actions.

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**Dominic O'Mahony, Exane BNP Paribas**

Thank you. Three questions from me if that's alright. So firstly on investment income the investment results was quite a long way ahead of the guidance, which his great, I'm just trying to square that with projections going forwards. I note that the projections haven't changed very much despite the decline in interest rates. Is the explanation essentially the allocation to illiquid pulling that sort of curve up?

Second question, I'm afraid I have to ask about social inflation, a lot of your peers, particularly in the US have talked about an increase in claims inflation on long-tail liability. Is there any sign of any leak across the border into Canada?

And then third question, slightly more loosely, I notice you haven't changed your timing on your combined ratio aspirations, which makes perfect sense, but when I look at the result by market, in Canada on a sort of normalised basis it looks like you're sort of there already. I recognise the issue around amortisation of software but at the same time you're very optimistic on Commercial underwriting, so you know 2020 looks good. In the UK 95 and a bit, a couple of points on the expense ratio, could we even be getting to the targets in 2021, so ahead of that target landing zone of 2022, '23, or are there other pieces to the puzzle that I might not have thought about? Thank you.

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**Stephen Hester, Group Chief Executive**

Thank you very much. Charlotte do you want to take the investment income and then I'll do the other two?

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**Charlotte Jones, Group Chief Financial Officer**

Yeah I'm happy to take the investment income point. I mean as you say there has been an element of portfolio moves, we have - we've put a little bit more into illiquid and look for the higher grade credit. I think it's also important to remember that because we carry them on an available for sale basis you know it's the speed by which we reinvest when they mature and reinvest, that's when you see the yield drop, but actually because the portfolio is relatively long term that's not happening quite so quickly. Obviously the other side to that is the AFS gain and the pull to par effect.

So I think it is a little bit change and mix within the overall same strategy that we've always had combined with the long term nature.

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**Stephen Hester, Group Chief Executive**

Thank you Charlotte. On social inflation, I would say clearly we in this context benefit from not having a material US presence and indeed what US presence we had, which was through the London Market exposures we've been taking down further. And so it feels to me like that's a good place to be.

And additionally even in our regional businesses we have played relatively less in what I'll call long term financial type lines, liability type lines than some people that have specialised in it for a living like the AIGs of this world.

That said, I would say both in the UK and in Canada there are slight upticks in liability loss ratio that we've seen in the last year. So I don't think we feel at the moment any exposure to the sorts of ballooning, but it is a reminder to us to stay close to home in those lines, but it doesn't feel like a drama, but there's certainly definitely a very slight uptick in liability lines in both those two territories that we can see at the moment.

And these things tend to be quite long tailed and so one doesn't quite know if the data changes in one year is that a trend or is that a blip, we'll find that out.

On your question about speed of achievement of combined ratios, I think the problem is that desktop analysis meets reality and reality normally wins. So I can - we have some desktop analysis that gets us beyond best in class in Canada this year, combined ratio, that gets us there for thereabouts, probably slightly worse, but in the right territory in Scandi and you know if Scott is worth his salary he might get the UK there faster than would otherwise be the case.

However, we can look at our own record over the last six years and although our own record has produced in the last four years three all-time bests for RSA in underwriting terms, it hasn't been you know a completely smooth slope upwards. And it is normally the case that either the market delivers you some sort of a setback, or your own efforts don't go perfectly. And therefore I think it's clear that we could conceptually achieve best in class ratios within the time period and in some cases possibly earlier, but you know it befits one to be sober about it. And so certainly as we think about the way you analyse our business we're not seeking to change the kind of combined ratio trajectories that are broadly in market estimates at the moment.

Of course we do need to do better in underwriting in order to make up for the headwind of investment income where you can calculate what the headwind is, there's a small FX headwind so to grow at all we need to have better underwriting, we think we can have, but I think it would be wrong to consider that it's all plain sailing. I'm sure we'll be delivered some kind of black eye in some places that we just don't what it is today.

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**Barrie Cornes, Panmure Gordon**

Again three questions if I may. First of all your dividend payout ratio target has increased, I just wondered if you'll do the same for the return on tangible equity given that you're towards the top end of that one?

Secondly, maybe one for Scott, just I wonder if you could comment on the UK Motor claims cost inflation, just where that's going at the moment, where he see it going in 2020?

And lastly, Stephen you mentioned renewal of management towards the end of your presentation there and there was some speculation in one of heavyweight papers early this week that there might be future change.

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**Stephen Hester, Group Chief Executive**

You want to renew me.

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**Barrie Cornes, Panmure Gordon**

I just wondered if you could ...

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**Stephen Hester, Group Chief Executive**

I'm sure you're not alone in wanting that. Scott, do you want to answer your bit of it.

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**Scott Egan, Chief Executive Officer, UK&I**

No problem. I think truthfully we get asked that a lot Barrie, we're actually seeing what most other people are seeing actually, which is sort of 5 to 10%, particularly on the PD side. And our ambition as always and has always been is to at least carry the cost of inflation in our rate. That's our intent, we don't always achieve it, but I think the trends that the market is seeing and you know you've seen it from what I would term the big Motor players, of which we're not really one, but we're seeing similar trends. So nothing new really to either contradict or build on in that sense.

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**Stephen Hester, Group Chief Executive**

Thank you Scott. In terms of the return on tangible equity, I think the challenge around return on tangible equity is that our tangible equity has gone up a bit and with low interest rates it goes up a bit further because the bond pull to par increases equity without increasing - whilst simultaneously reducing our earnings power.

So at the moment it feels to me like - I mean if the earnings were exactly the same in 2020 as 2019, the return on equity would go down, that's probably going to happen again in terms of the next year. So right now it doesn't feel like the time to change the return on equity calculation, but that's - more a function of what's happening to the denominator as to the other side of it.

And I have to say if you look around the world, a) at the level of interest rates, and b) and other capital using businesses, including financial services businesses to be mid teens or better is a pretty happy place to be if you're an investor I would have thought.

And in terms of your last question about management renewal, clearly it's in the hands of the Board when to get rid of me and I know I'm aging fast and no doubt becoming ineffective. For my own part in that I have no plans to go anywhere, at least over the

next year, which is about as far ahead as I look, we'll see whether anyone else has different plans to that.

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**Faizan Lakhani, HSBC**

I have three questions. So in – 1/1 in Danish Commercial Lines how did you sort of perform out there, did you get the rates you were looking to achieve out there?

Question two; you've done a fair bit of work in Canadian Commercial in terms of cutting top line and volume, how much more needs to be done there?

And thirdly, in UK and International, you've done very, very well in reducing your attritional loss ratio, but it appears in the second half of the year it has stepped out slightly, I know some of that will be truing up of loss ratios from the first half of the year, but is there anything else that's driving that?

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**Stephen Hester, Group Chief Executive**

Good, thank you for those questions. In terms of the Danish 1/1 renewal it went very slightly better than we had planned. So our top line is down in Demark on 1/1 because we planned it to be, but we got a bit better retention than we thought and we got all the rate that we'd planned. And so you know that's good from our point of view.

In terms of Canadian Commercial, by and large the rating increases have been offsetting the volume decreases and I see no reason why that would be different this year in terms of how we look at it at the beginning of the year.

And I've forgotten your third question?

H2/H1, sorry, so I think you are absolutely right, you do have to - it's hard for you to do it, but H2/H1 trends are obscured by reserve reviews that can be forward or backward looking. And I would say at a Group level when you do that adjustment H2 is similar to or slightly better than H1 and in the UK you're right it's slightly worse.

We don't believe there's anything important going on in there, there's odd bits of seasonality floating around. And so our central view is that this year we will see better attritional than last year, but obviously, you know, we're only two months into the year. So the first two months seem to bear that out, but there's ten to go.

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**Faizan Lakhani, HSBC**

Thank you.

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**Andrew Crean, Autonomous**

Could I ask a couple of questions. Firstly, your guidance on pull to par effects, is that as at December or as at now? And related to that question once you're through the pull to par effects would you review your payout policy again?



And then secondly in terms of your attritional loss ratios, I mean I think you've said you've got to where you've got want to in Scandinavia, you must be pretty well there in Canada, can you give us a little bit more guidance as to how much you intend to improve attritional loss ratios, or whether the growth is now really going to be coming from premium, top line and lower costs?

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**Stephen Hester, Group Chief Executive**

Yeah, on attritional loss ratios I would say the one area in Scandi that we need more progress is Danish Commercial and so I would expect that to improve this year. But the rest of our portfolios in Scandi or at or better than our target profitability and therefore we don't need to improve it and we'd rather have more volume.

In Canada the issue is understanding claims inflation and in particular weather. So at the moment we feel that there will be a further worthwhile improvement in attritional loss ratio, which is already frankly earned into the books appearing next year. And we're forecasting that to flatten out thereafter because we're forecasting our profitability to be at the levels that we want it to be thereafter.

But we will end up being fairly data driven in terms of understanding trends and understanding how much of that attritional loss ratio benefit is lost through claims inflation, either of a volatile kind in weather, or an attritional kind which can also show through.

And for example - when we look at the industries results, including ours in 2019, but it was particularly marked in Intact, despite all the rate going through the Household attritional loss ratios had not improved, which is telling you that that there is a fair amount of Household claims inflation that you have to price for.

So again - but our basis thesis is once we get to our best in class profitability we stop wanting to improve the loss ratios and we start wanting to write more business. And so it will be driven by that.

And the same will be true in the UK. Clearly we're not at the right levels of profitability yet in the UK, we need to do a bit more on attritional, but frankly what the UK needs to do more to hit its profitability target is get costs in the right place. And so that's the most important thing for us to do in the UK. And as Scott mentioned in a perfect world we'd like to grow those portfolios in the UK that are already at good levels of profitability.

In terms of your first question, which was about our dividends, again I would say philosophically we don't want to sit on large quantities of capital that isn't working for us. So if we were to get into that position we would seek to correct it through one or the other mechanisms in the marketplace that are available to us, just our current expectation is if we took the next three years, which is most relevant for yours and our forecasting, we think that the new communicated range is likely to cover our experience in the next three years and therefore it will be a moot point. But our philosophy is unchanged; it's just simply an assessment of where we are.

The pull to par numbers that we've given you are as at now or certainly as at the beginning of this week, just to answer that bit of it.



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**Ben Cohen, Investec**

Thanks very much. I just have two questions please. Firstly just on your IT investment, I just wonder overall, or maybe by region you could comment as to how you see where you are versus best in class, do you need to make sort of more capital intensive spend there?

And the second question was just on the European operations that you've separated out now. Less than 5% I think of Group premium overall can you just remind us what the strategy is for that business and how it fits in the bigger piece? Thank you.

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**Stephen Hester, Group Chief Executive**

Sure, so technology, I don't think there's a company on the planet that can claim to be best in class in technology and if they could the bar would move so fast that whether you were today you wouldn't be tomorrow, and I don't think there's any big company that doesn't feel in a miserable place on technology and weighed down by complex systems and so on and so forth, every big company seems the same to me as far as I can work out.

And as a consequence of that since the work is giving us every year more tools, both to serve customers better, to be cleverer and to be more efficient, every single year we need to take advantage of those tools or we'll lose. And so therefore our working assumption is that for as many years as we project we will spend more on new IT than we depreciate on old IT and that is our form of capex, that's our equivalent to opening a mine or building a factory. And we did that last year and we project to continue to do that.

It's not completely uniform because you tend to have, you know when you replace big backbone systems that tends to have a particular spike in capex, which you don't do very often and then there's lots and lots of smaller things. So for example Canada spiked in the last two years and now should go down, the UK is spiking at the moment and over the next two years Scandinavia is in a better place.

So there will be ebbs and flows, but net-net I'm assuming that the Group will spend more, which is why when we break down if you like, our sources and uses of funds in dividend terms and we've replicated the chart again in the appendices of the slides, we think we'll keep retaining some money, part of which is for that net capex.

You asked a second question which I've now forgotten?

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**Ben Cohen, Investec**

Europe.

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**Stephen Hester, Group Chief Executive**

Europe, yeah, so I would say on Europe we have about £200m of Commercial Lines business. It's exactly the same business lines and kinds of customers that our UK higher

end Commercial Line business is, i.e. it's different than London Market because it's a customer driven business. And so at the moment it feels to us that we can both make money and get synergies in terms of underwriting expertise. And they all, because it tends to be multinational business use our global network and so it puts volume through our global claims paying network and allows us to remain credible for UK multinational clients.

So for so long as it is the case that we can make money on that £200m of premium we want to do it and we want to do it well. But it is of course - it's not strategically absolutely essential and so the caveat has to be - we have to be able to make money. The results were good last year; we have to make that consistent.

Any more questions?

Terrific, we're running out - well thank you very much for joining us, obviously you know where to find us if you have more questions.

We are pleased with 2019's results, we do think the Group can improve further, but we're also cognisant that we're in a world with plenty of headwinds and so neither we nor you should get carried away, but Steady Eddie is just fine in a market that is far from Steady Eddie. Thank you very much.

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