
RSA Insurance Group plc Q1 2020 Trading Update¹

7 May 2020

RSA reports strong first quarter 2020 operating results

Group is performing resiliently in Q2 though still too early to fully quantify COVID-19 impacts

Stephen Hester, RSA Group Chief Executive, commented:

“RSA’s first quarter results were strong, continuing the momentum seen in 2019. However, focus has now naturally shifted. Our thoughts and deepest sympathies go to those most directly affected by COVID-19. And RSA’s attention is fixed on responding to the impacts of COVID-19 on economies, our customers and through that on ourselves. Whilst it is too early to estimate the extent of these, RSA is resilient and determined to sustain strong and appropriate support for our customers in these testing times. We are also very conscious of our shareholder responsibilities, especially with regards to restarting dividend payments when it is prudent to do so.”

Trading update

Market conditions

Insurance market conditions were largely unchanged in Q1 with little time for a COVID-19 effect. The markets were competitive overall, although accommodating underwriting actions in those portfolios responding to industry losses.

Financial markets were heavily impacted by COVID-19 in March. All asset classes saw impacts broadly associated with increasing risk premiums.

Premiums

- Group net written premiums of £1,521m were down 1%² ex. exits vs Q1 2019 (down 2%² inc. exits) and in line with our plans – areas of profitable growth were offset by planned underwriting effects in portfolios being remediated, with this process nearing its conclusion.
 - In Scandinavia premiums of £610m were down 3%² reflecting portfolio actions in Danish Commercial Lines, partly offset by Personal Lines growth.
 - In Canada premiums increased 8%² to £303m driven by pricing increases and volume growth in direct Personal Lines, while our broker intermediated businesses saw volume contraction reflecting underwriting actions.
 - In UK & International premiums were down 5%² to £572m ex. exits (6%² inc. exits), better than our plan, and reflected the impact of underwriting actions in 2018 and 2019. Key areas targeted for expansion such as our Regions commercial business, and UK household saw positive volume growth.
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Profitability

- The Group business operating profit for Q1 was up by double digit percentages, both including and excluding exit portfolios, with an improved combined ratio and slightly lower investment income (as guided). COVID-19 affected the balance sheet but not our operating profit materially given the timing of lockdowns late in the quarter. Each of our three regions performed on or

ahead of our plans. There were also strong underlying signs of loss ratio improvements in those commercial lines areas that performed less well in 2019.

- Underwriting profit components (excluding exits):
 - Group weather costs were 3.7% of net earned premiums (3.7% inc. exits; Q1 2019: 3.2%), a little better than our expectations for the quarter though worse than prior year. Weather costs were better in Canada and worse for the UK & International division due to February flooding in UK.
 - The large loss ratio was 8.9% (9.5% inc. exits; Q1 2019: 8.5%) with improvements in Canada offsetting a higher ratio in UK & International.
 - The attritional loss ratio improved overall, and in each region.
 - The written controllable expense ratio increased slightly overall (though absolute costs were down 1% in real terms).
 - Prior year development was positive and better than Q1 last year which was flat. It included a £12m precautionary reserve for PY inflation effects of COVID-19.
- Investment income was within the range guided at our 2019 Full Year Results.
- Exit portfolios (while now largely run off), generated a loss in the period principally from a single large claim.
- The impact of financial market volatility generated £30m of impairments and mark to market impacts outside the business operating result. Over time, much of this could reverse should market conditions normalise. £9m of UK restructuring charges were also booked.

Balance sheet and capital

- Tangible shareholders' equity at 31 March 2020 was £3.15bn (31 December 2019: £2.91bn). The increase was driven by an increased pension surplus, year to date profits, and FX movements, partly offset by mark-to-market losses. Tangible net asset value per share was 305p (31 December 2019: 282p).
- Balance sheet unrealised gains were £204m at 31 March 2020, down £167m since year end (c.£100m of the movement related to equities (mainly REITs) with the balance relating to fixed income). IFRS pension surplus in the UK was £668m (net of tax), up £413m from 2019 year end.
- The Group's estimated Solvency II coverage ratio was 151%³ at 31 March 2020 (31 December 2019: 168%), reflecting COVID-19 driven market impacts and planned pension contributions, and including the 2019 final dividend accrual. Excluding this accrual, the estimated ratio was 160%³. On both bases the coverage ratio falls well within our target range of 130-160%.

COVID-19 impacts

While it is too early to quantify with any precision the impacts of COVID-19 on RSA for 2020, we discuss the principal areas affected below with some indicative data for the period to end April, focused on the six weeks or so impacted by COVID-19 lockdowns:

- Our priority is to sustain good service to customers through these testing times. RSA is working hard to settle claims promptly and fairly and where relevant to offer interim payment to support customers, as well as sustaining supply chains through prompt and interim payments. We are also providing a wide range of customer relief measures across our different territories, ranging from coverage adjustments and waivers, payment timing relief and discount or price capping of rates. We are participating fully in a range of industry initiatives including exploring future pandemic coverage options and voluntary relief funds.
- The cost of claims will be complex to interpret as patterns are distorted by the impact of lockdowns. It is still too early to be confident of trends or to know the timing and pattern of

pandemic impacts, government actions and their economic effects. Encouragingly some of our territories have begun a gradual normalisation though it is still too early to know how this will play out.

- For the month of April claims frequency⁴ was down vs. prior year in a range 20-55% across our three regions, mostly reflecting COVID-19 impacts on activity levels. Scandinavia frequency decline was at the lower end of this range reflecting milder lockdown impacts. In general, motor accident lines were most affected, though most business lines saw meaningful declines. It is not yet possible to assess how much of this data reflects delayed timing of claims or what the impact will be on claims severity of disrupted supply chains and other factors. These elements will reduce the loss ratio effect. However, it is likely that frequency effects overall will provide an offset to areas of negative COVID-19 impact on premiums and claims.
- Specific COVID-19 related claims are arising in travel insurance (which benefit from substantial reinsurance protection), wedding cancellation insurance (UK impacts) and for commercial lines business interruption and related policies. The great majority of business interruption claims are not expected to be eligible under their coverage terms for COVID-19. However, there are a number of areas where claims are being paid, mostly in certain specialist schemes and programmes.
- For the period since inception of COVID-19 claims in March to end April, RSA estimates receiving a total of c.25,000 COVID-19 related claims (of which c.23,000 are travel claims) that have coverage and will pay out, at an estimated cost of c.£25m net of reinsurance. This includes travel claims with estimated costs of £16m gross of reinsurance, claims for wedding cancellation with an estimated reserve of £7m, and claims under certain business interruption and related coverages with an estimated claims reserve of c.£17m. The great majority of the non-travel claims relate to our UK&I division.
- Claims backlogs at month end were within normal tolerances overall and include COVID-19 related claims that have not yet been validated or where information has not yet been provided to establish likely claims value.
- Aside from the reinsurance coverage on travel claims, we expect most other COVID-19 related claims can be aggregated by week and applied against the Group's GVC programme if over £10m, and against the Group's cat programmes (described in the Group's full year results) if reaching higher levels. This is expected to provide substantial protection in relation to downside claims scenarios.
- Our assessment of claims is based on contract terms, detailed analysis of specific wordings and relevant legal advice. As always, it is expected that some cases will be challenged and may have outcomes the same or different to our expectations. The rate of receipt of new COVID-19 related claims has slowed materially in the most recent weeks.
- RSA is also expecting a COVID-19 effect on written premium income for 2020, as some customers reduce their coverage reflecting changed needs, and various rate adjustment and other programmes impact. There will likely be an increase in bad debt from customers, and we are actively working with those in most need on payment spreading plans. In the period to end April bad debt impacts were not substantial.
- RSA itself has been able to adjust well to substantially all employees working from home. While there are limited areas of service slippage, in general business remains largely as usual. We have prioritised health and welfare of our staff and we have not implemented job reduction programmes or taken part in government furlough programmes.
- Financial market movements will continue to impact balance sheet, solvency ratios, pension surplus and investment income. As at end April the Solvency II ratio had recovered slightly, and was estimated at 153%³ (161%³ excluding dividend accrual). The investment income outlook is lower but still within the ranges guided for 2020.

Footnotes:

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

² At constant FX

³ The Solvency II capital positions at 31 March 2020 and 30 April 2020 are estimated

⁴ Measured as claims counts

⁵ The Group uses Alternative Performance Measures, including certain adjusted measures, to help explain business performance and financial position. These measures have been calculated consistently with those for the year ended 31 December 2019 and reconciliations will be provided with the condensed consolidated financial statements for the period ended 30 June 2020.

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LEI number: 549300HOGQ7E0TY86138.

Conference call for analysts and investors

A conference call for analysts and investors will be held at 08:30am on Thursday 7 May to discuss the Q1 Trading Update. Participants should call +44 (0)800 358 9473 (toll free) or +44 (0)33 3300 0804, using participant pin code 73657174#. A recording of the call will be available via the Company website (www.rsagroup.com).

Important disclaimer

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