

# Ageas' strategy in the UK

AGEAS INVESTOR DAY

6<sup>TH</sup> OF JUNE 2017 | LISBON PORTUGAL





# Agenda

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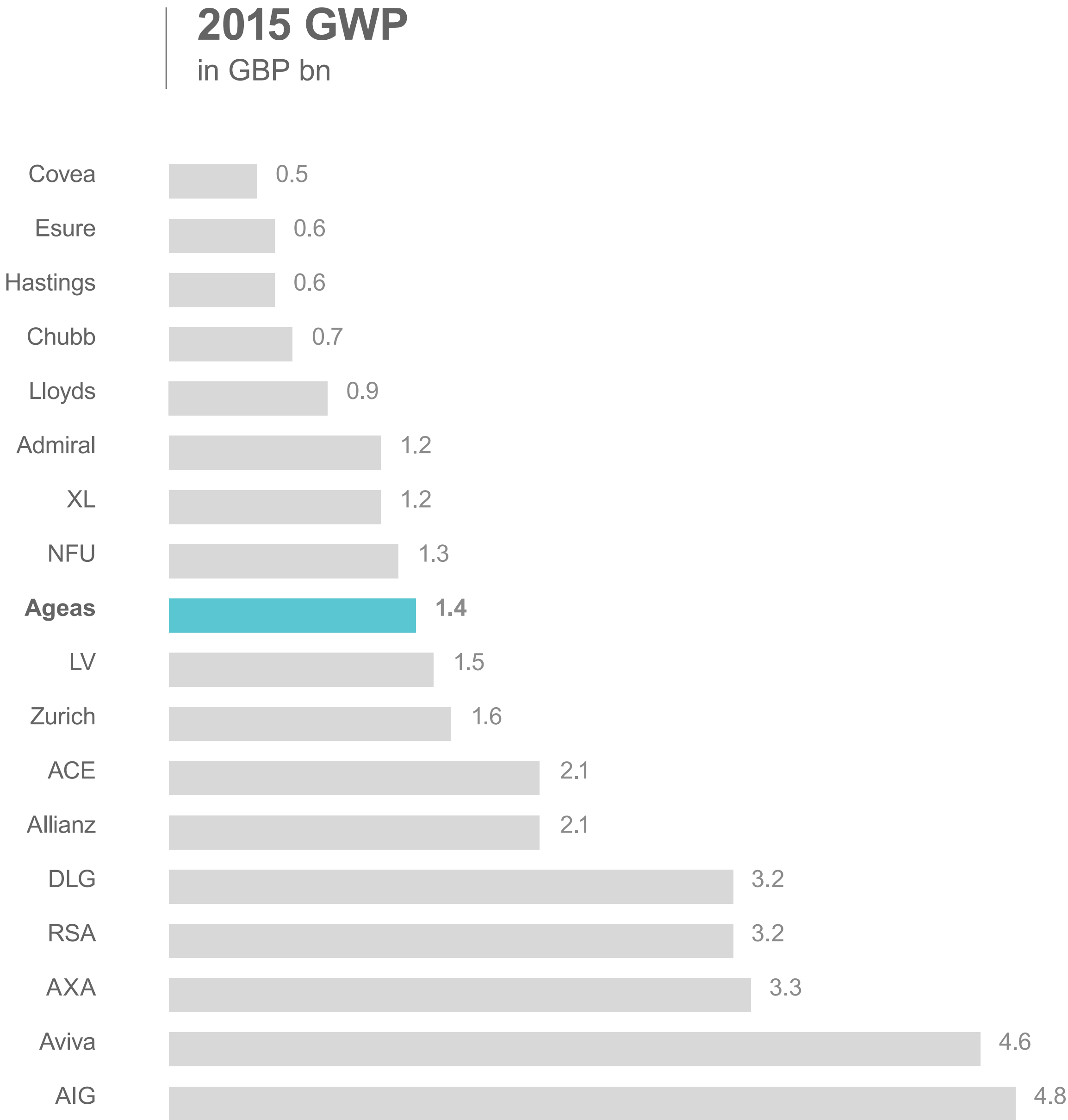
- UK Non-Life Insurance Market
- Ageas in the UK
- 2016 results
- Our plan
- Conclusion

# UK

## Non-Life Insurance Market



# Competitor landscape



- Wide variation in competitor business models
- Mixture of personal and commercial lines
- Different product mix
- Various distribution approaches

Note  
Based on PRA return data for 2015  
Ageas figures exclude Tesco

# UK Market fundamentals

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## Products

### Motor

- Knowledgeable, price driven consumers
- Historically low underwriting profit with established pricing cycles
- Overall profitability can be improved by access to non-underwriting income streams
- Prior to Ogden, good premium inflation but underlying claims inflation and IPT increase

### Home

- Less of an underwriting cycle
- Results dominated by weather events
- Relative profitability and competitive pressures means falling premiums and margins
- Claims inflation

### Small Commercial

- Focus on a package of products
- Less price driven, good profitability
- Less volatile than other markets

## Characteristics

## Distribution

- Direct and Aggregators strong
- Brokers more successful in specialist areas
- Aggregators increasing their presence
- Brokers having some success in more specialist areas
- Broker dominated market
- Direct propositions still the minority
- Electronic trading increasing

# UK regulation and legislation

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## Past/current

Solvency II  
Renewal pricing transparency  
Flood Re  
Value measures  
Insurance Premium Tax  
Whiplash reforms  
Ogden discount rate

## Future

General Data Protection Regulation (GDPR)  
Insurance Distribution Directive (IDD)

# Ageas in the UK



# Ageas in the UK

GWP in EUR bn

General Insurance  
market share (2015 data)

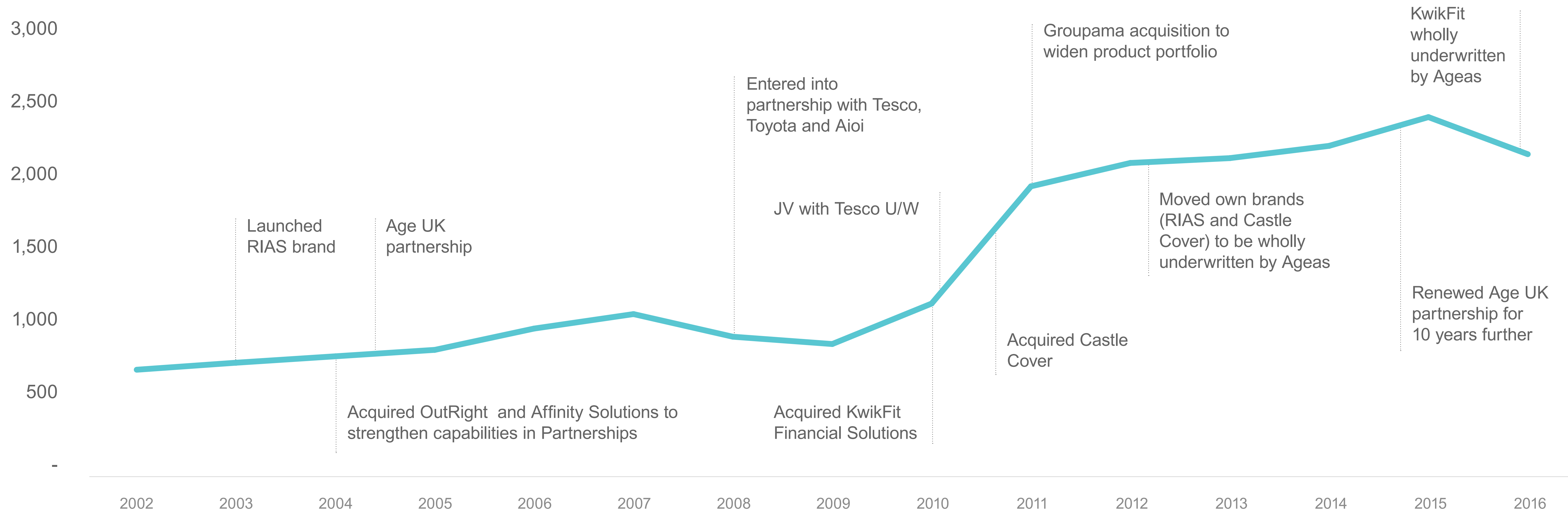
**3.3%**

Employees  
**4,000**

Partners across five  
market sectors

**9**

Active brokers  
**2,500**



GPW figures include Tesco  
General Insurance market share based on PRA return data for 2015 Ageas figures excludes Tesco



# Our routes to market today

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## GWP

### Broker

EUR **1,331 mio**

### Partners

Tesco Underwriting  
EUR **483 mio**  
EUR **215 mio**

### Direct

EUR **175 mio**

## Channel Characteristics

- Most important channel will remain our dominant route to market
- Operating models range from entirely High Street based, to large telephone and on-line brand-lead propositions
- Proven resilience to market development via consolidation, networks, investment in anti-fraud capabilities, but elements still under pressure
- Success in specialist sectors

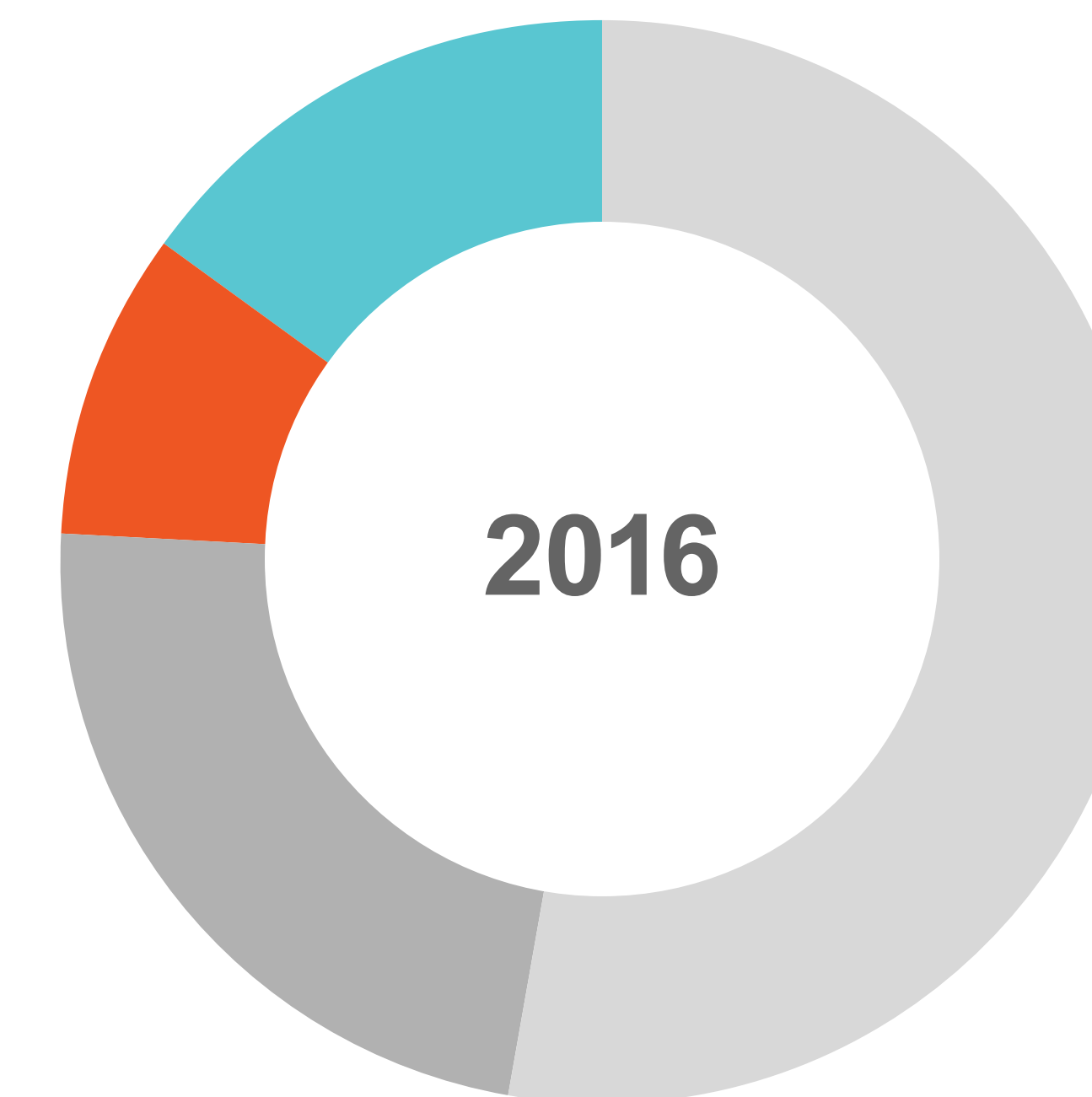
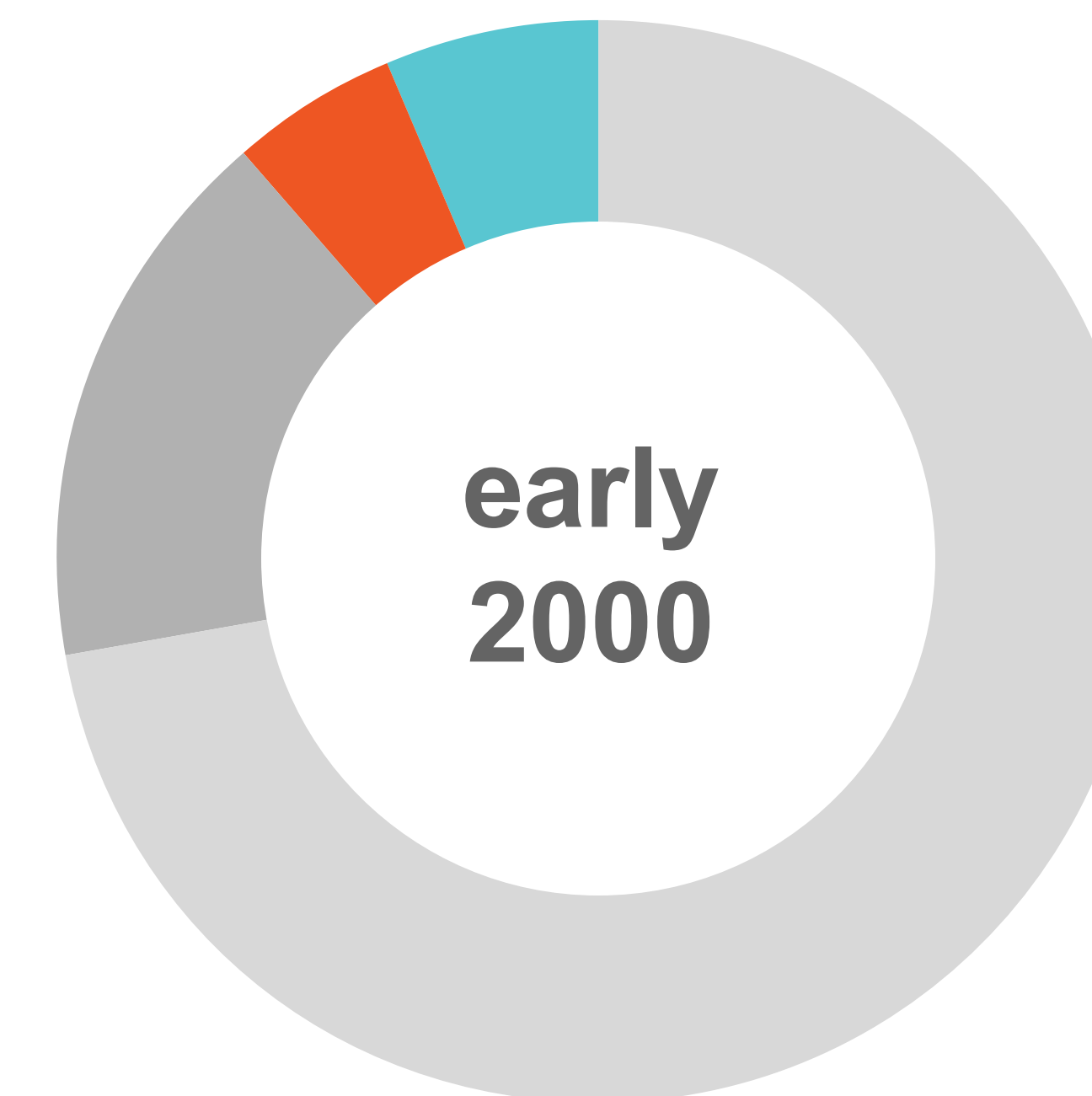
- Partners selected for their distribution benefit
- Need for both parties to make target returns; benefits negatively impacted by growth of aggregator channel
- Partner portfolio includes: motor manufacturers; Tesco Bank, via 50.1% ownership of Tesco Underwriting; and Age UK (Motor, Household, Travel)

- Route to market originally via acquired broker businesses
- Operating models changed from panel to solely Ageas
- Multi-channel distribution
- Brand rationalisation, marketing capabilities updated and underwriting footprint expanded
- Millennial proposition launched 'Back Me Up'

# Our product mix

- 3<sup>rd</sup> in Private Motor (AIL & TU combined)
- 7<sup>th</sup> in Household
- Significant change in product mix with growth in Commercial and Household

## Ageas mix by GWP



■ Motor  
■ Household  
■ SME  
■ Other

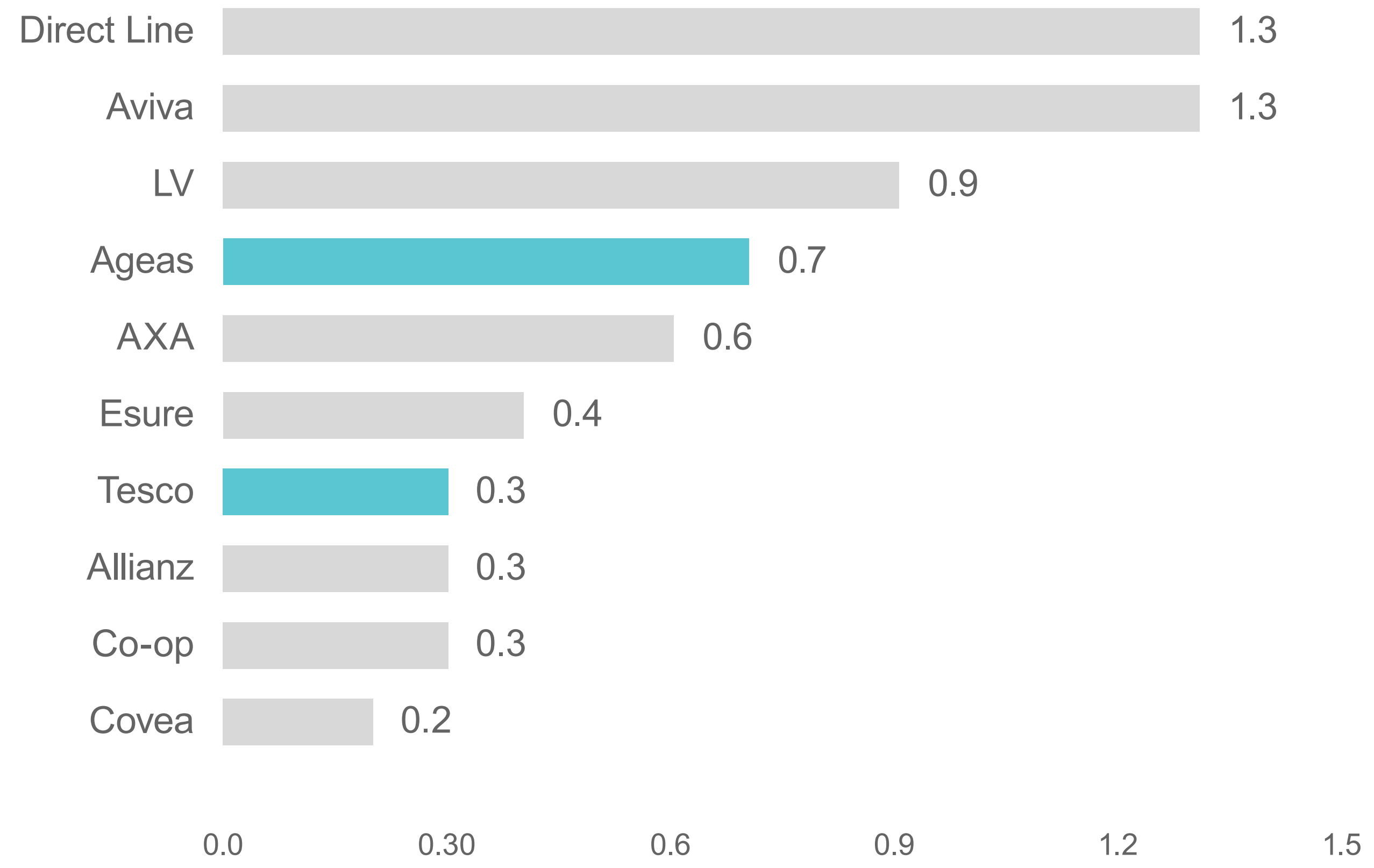
Note:  
Market shares based on PRA return data for 2015  
Ageas figures exclude Tesco

# 2015 Gross Written Premiums



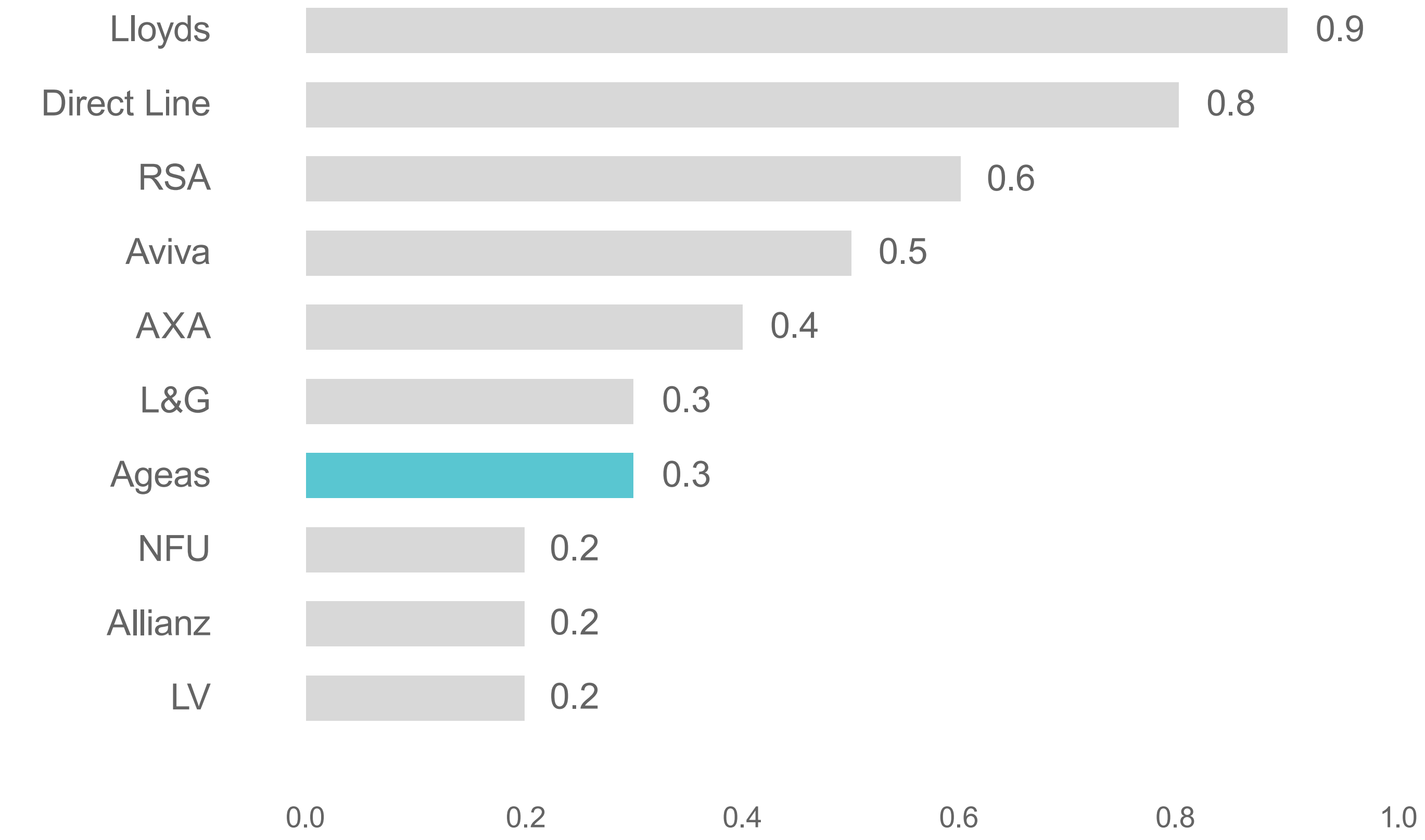
## Private Car GWP

in EUR bn



## Household GWP

in EUR bn



Note:  
Market shares based on PRA return data for 2015  
Ageas figures exclude Tesco



# 2016 Results



# Net result

## As reported

in EUR mio

	2011	2012	2013	2014	2015	2016
Gross Written Premiums	2,035	2,229	2,284	2,398	2,457	2,203
Operating result	66	106	90	62	28	(130)
of which Investment result	52	78	54	59	64	66
Profit Before Tax	121	147	119	114	35	(185)
Net profit after tax	83	95	92	120	30	(135)
Net profit after tax TU	4	13	8	(2)	(0.2)	(21)
<b>Net profit Ageas UK</b>	<b>86</b>	<b>108</b>	<b>100</b>	<b>117</b>	<b>30</b>	<b>(156)</b>
Combined ratio	99.9%	99.8%	97.8%	99.8%	102.1%	112.2%

# Net result

## Underlying

Exceptional charges especially in 2016

Significant adverse weather cost in 2015 and 2016

in EUR mio

	2011	2012	2013	2014	2015	2016
Net profit Ageas UK	86	108	100	117	30	(156)
Restructuring						27
Ogden discount rate						155
Non-performing MGA						31
Capital gain UK Life sale				(21)		
Net result UK Life	4		2	3		
<b>Total non recurring charges</b>	<b>4</b>	<b>0</b>	<b>2</b>	<b>(18)</b>	<b>0</b>	<b>213</b>
<b>Underlying net profit after tax</b>	<b>90</b>	<b>108</b>	<b>102</b>	<b>100</b>	<b>30</b>	<b>57</b>
GBP/EUR impact		7.1	(4.8)	6.0	8.9	7.2



# Exceptional items in 2016

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## Restructuring Organisation

- Closure of Glasgow as part of a broader strategy to optimise costs
- Change in Kwik Fit business model: closed to new business and renewals wholly underwritten by Ageas
- Administration now handled in other Ageas UK locations
- Cooperation with authorities to support re-employment of former employees - 70% at time of closure

## Non-performing MGA

- Agreed contract in 2009 with an MGA to support growth strategy in broker channel
- Three portfolios: Household, Travel and Special Risks
- Includes a number of long tail products such as Warranty and Gap insurance
- Termination of contract early 2017, following losses, in particular in Special Risks portfolio
- Special Risks products no longer part of our underwriting strategy

## Ogden Discount Rate Review

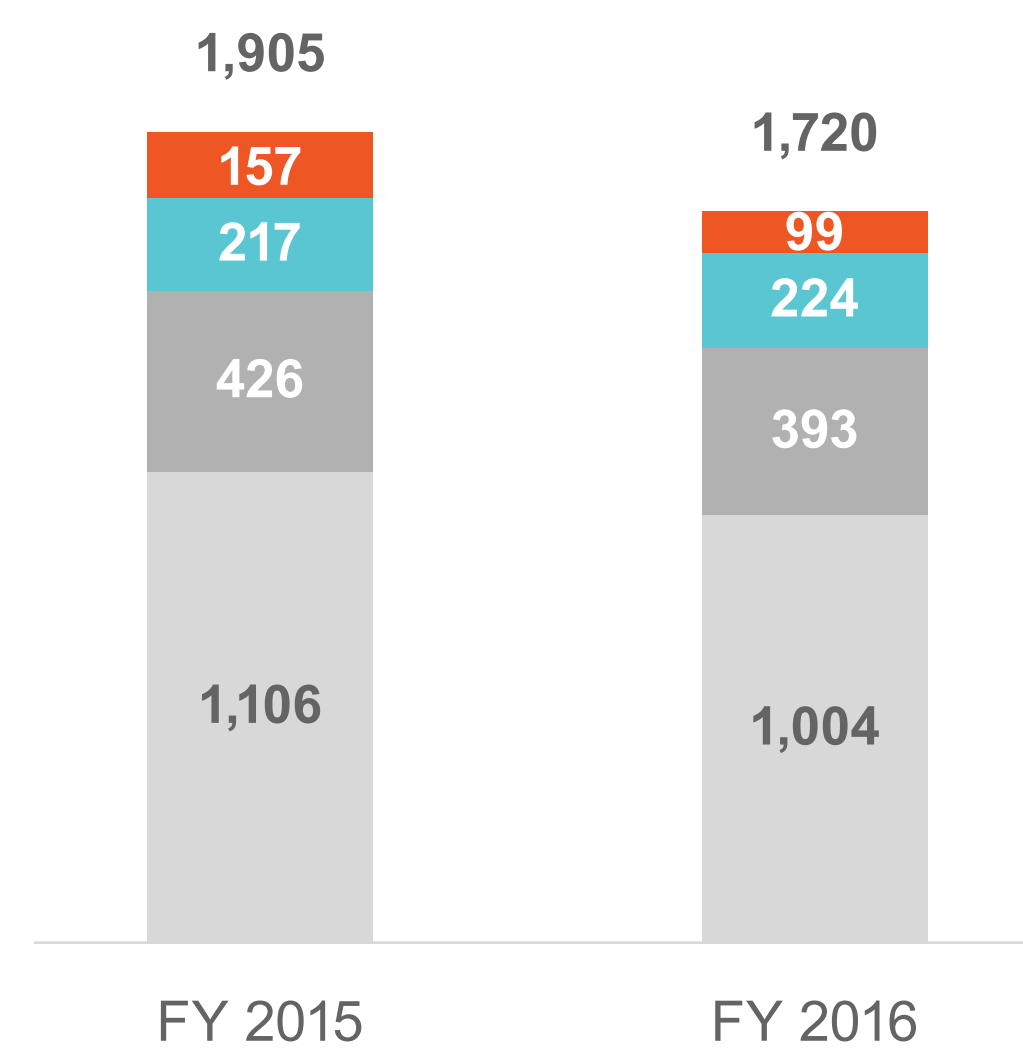
- Reduction of Ogden rate from 2.5% to minus 0.75%, with effect from 20<sup>th</sup> March, 2017
- Applies to all open and future claims
- One-off impact on Ageas UK of EUR 155 mio
- Industry wide impact of GBP 7 bn (ABI data)
- Prices across impacted lines up c.10%
- Ministry of Justice consulting on new methodology; industry making case for pragmatic new approach

# GWP analysis

- GWP increased by 1.9% in local currency
- Hardening market in Motor providing opportunity for rate increases
- Continued soft Household rating environment, but success in winning new specialist schemes
- Broker opportunity in Commercial lines
- Kwik Fit moved from partnership to direct
- Partnership driven by path to profit
- Foundations to compete on aggregators now laid, with plans to grow direct via this channel in 2017
- 2017 GWP will be impacted by market dislocation due to pricing reactions to Ogden rate change

## GWP Analysis by product

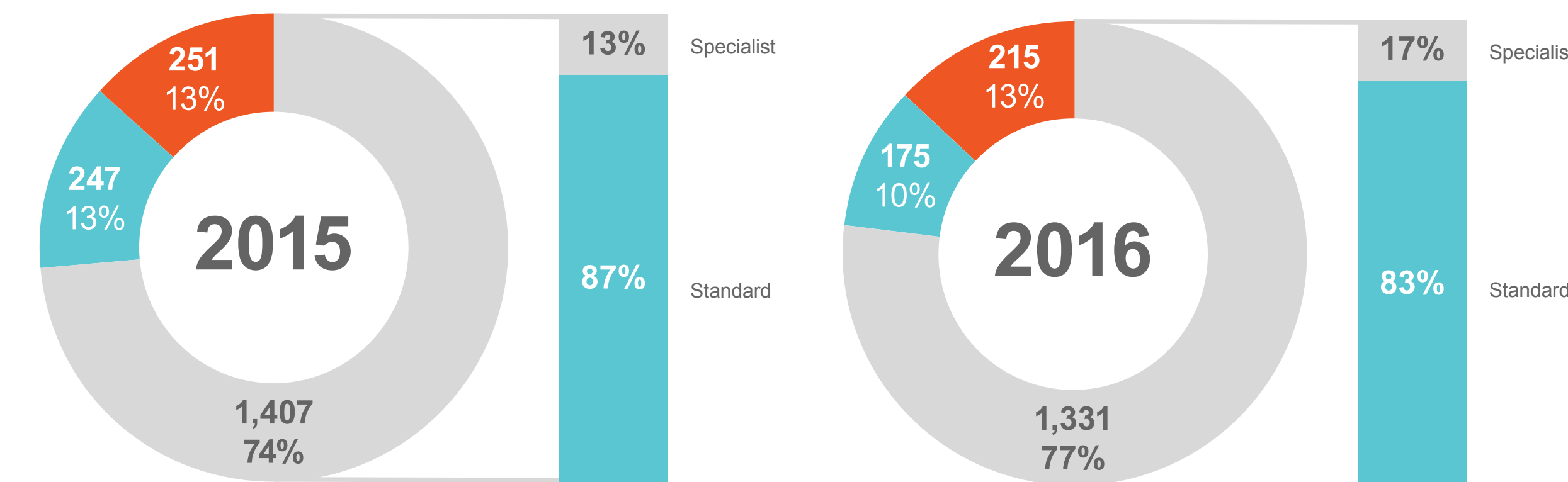
in EUR mio



■ Other  
■ Commercial  
■ Household  
■ Motor

## GWP Analysis by channel

in EUR mio, %



■ Partnerships  
■ Direct  
■ Broker

GWP figures exclude Tesco

# Operating performance

## Total

Underlying COR	FY 2015	FY 2016
<b>COR reported</b>	<b>102.0%</b>	<b>112.2%</b>
Ogden rate change (excl. TU)		-9.6%
Weather	-4.2%	-0.8%
Restructuring	0.4%	
<i>Discontinued Operations</i>		-2.4%
<b>COR underlying</b>	<b>98.3%</b>	<b>99.5%</b>

- 2016 COR significantly impacted by Ogden rate change
- Management action taken to discontinue non-performing MGA



# Operating performance

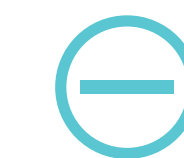
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## Personal motor

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Market and Ageas improving profitability:

- Hardening market in 2016
- Rate increases successfully implemented
- Ogden dislocation and uncertainty

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<b>COR underlying</b>	<b>85.6%</b>	<b>98.2%</b>



Soft market - Action underway in 2017:

- Action on underperforming schemes
- Pricing / rating capability improvement
- Indemnity spend actions, especially escape of water

# Operating performance



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Weather	-7.0%	
<b>COR underlying</b>	<b>85.6%</b>	<b>95.9%</b>



Trading margin for growth and maintaining sub 97% COR underlying whilst developing the Commercial book



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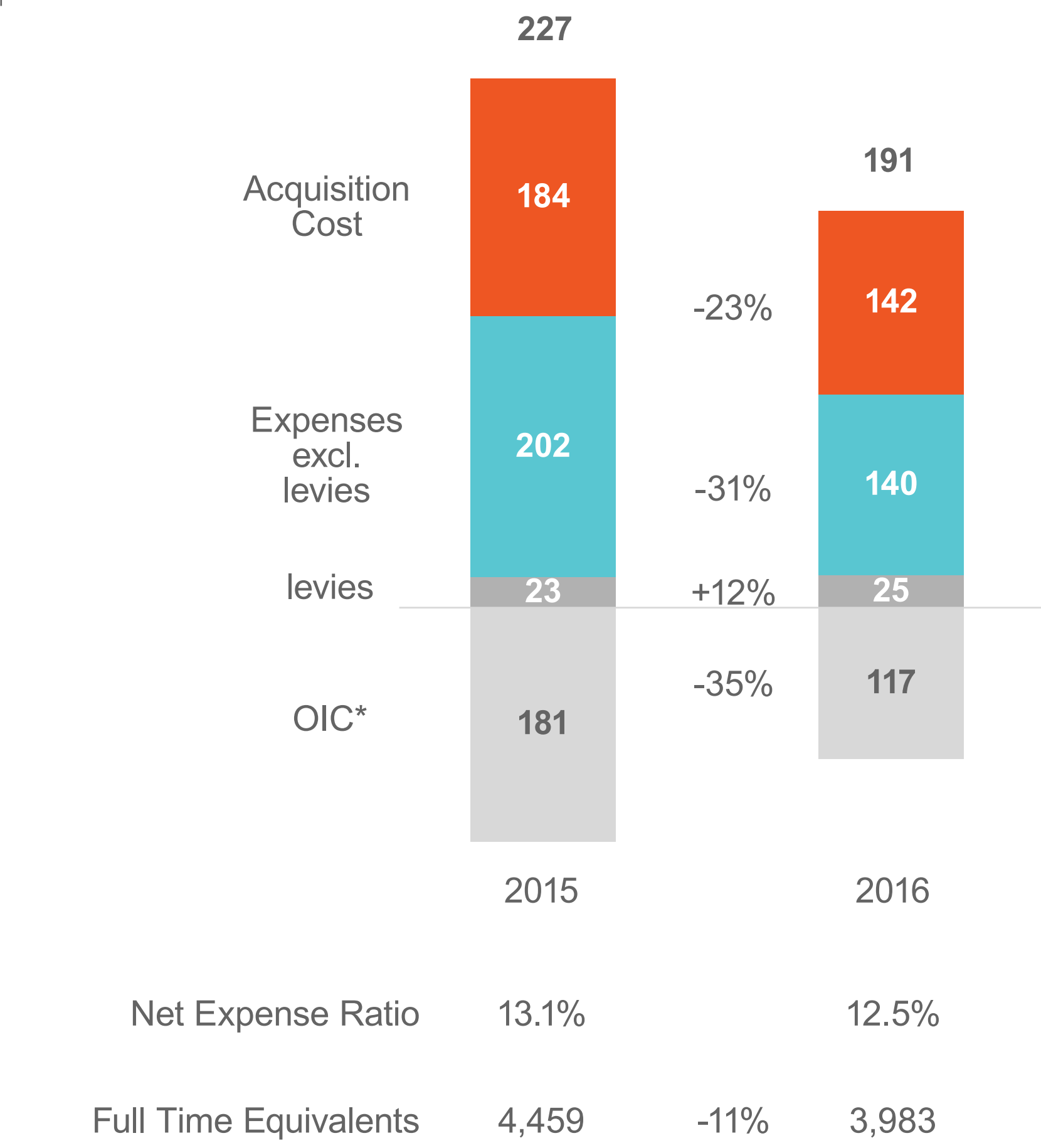
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# Operating costs



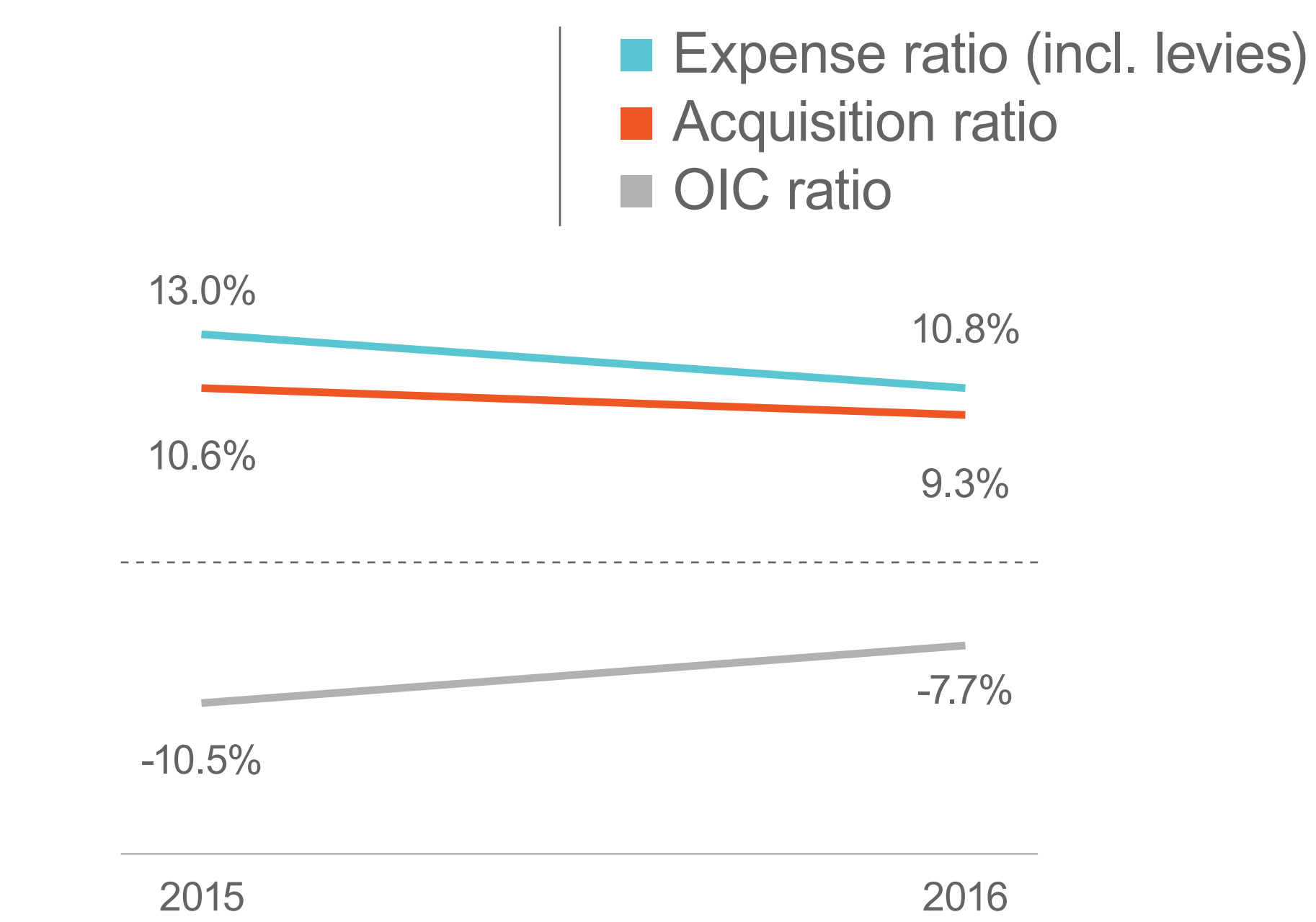
## Net Expenses

in EUR mio



\*Other income and commission

## Net Expense Ratio



N.B.: 2016 expenses exclude BMU investment spend and Galileo exceptional costs

Year on year reduction in expenses driven by:

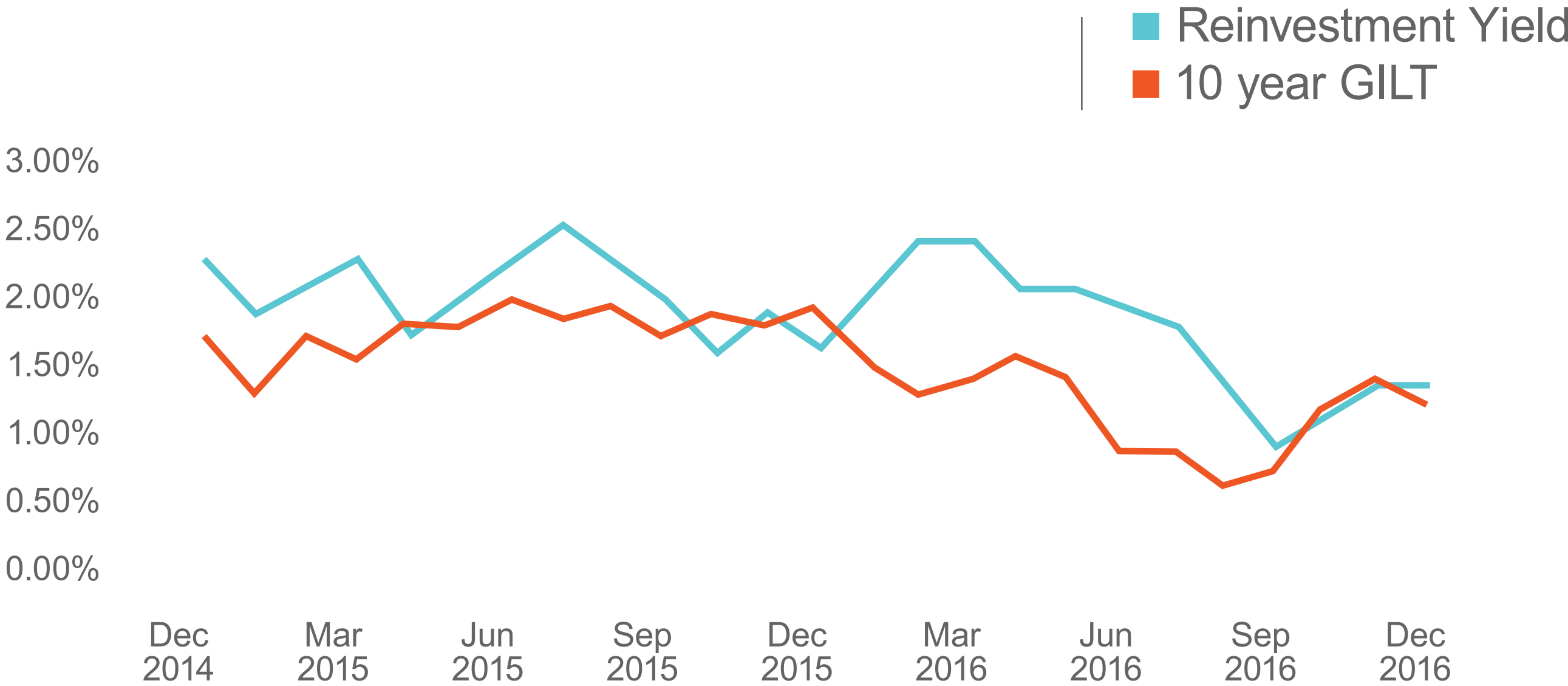
- Cost savings initiatives
- Creation of single overhead functions
- Reduction in operating costs related to Kwik Fit
- Absorbing levy increases relating to Flood Re

Expense savings offset reduction in OIC

# Investment returns



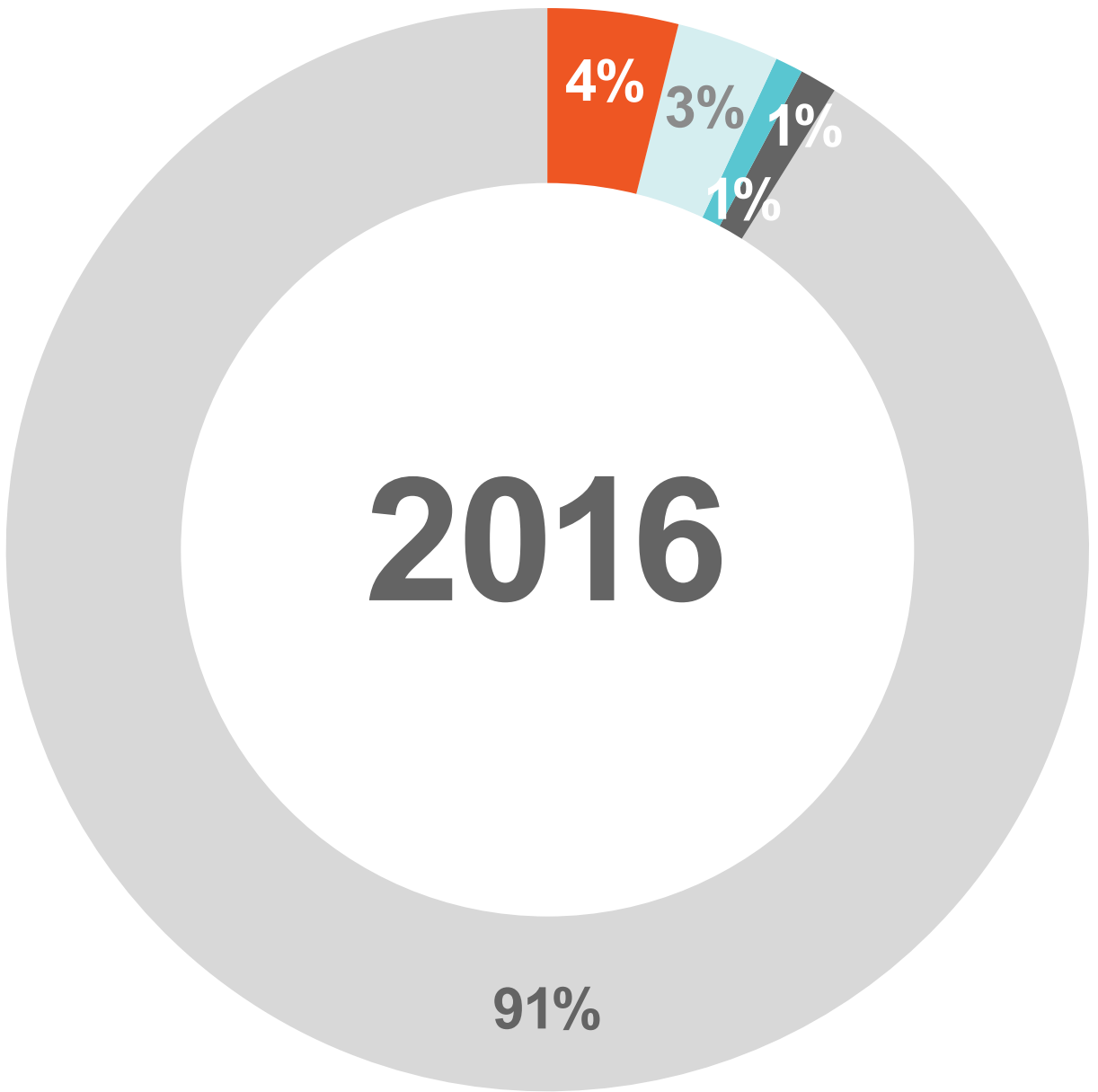
## Investment Yield Analysis 2015 - 2016



## Investment Income in EUR mio



## Asset mix



- Cash
- Property Funds
- Infrastructure
- High Yield
- IG Fixed Income

- Bond portfolio average duration: 3.5
- On constant exchange rate investment income improved year on year
- Good returns achieved on sale of higher yield bonds and investments in infrastructure
- Under performance in other areas and costs associated with property bond investment
- Derisking in Q1 '17 through sale of high yield bonds, a mitigation to Ogden solvency impact; consequently realising capital gains

# Ogden Rate

## Solvency plan



	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Own Funds in EUR mio	1,099	1,057	998	912	709	694
SCR Ageas in EUR mio	843	768	745	678	707	636
Solvency Ratio (%)	130	138	134	135	100	109

- Steps taken to improve the solvency position post Ogden. Specifically:
  - Reinsurance
  - Derisking of investment portfolio
- Ageas Group capital injection of EUR 77 mio in April (incl. TU)
- “Adjusted Q1” Solvency Ratio of 121%
- Retained future profits will further strengthen the position



# Our plan



# In summary

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- Developing our channel mix
- Improving the loss ratio
- Taking decisive action on cost
- Prioritising the customer

# Key priority 1

## Developing channel mix

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### Channel Mix

Continue to support Brokers, stabilising Partnerships and growing Direct

#### Brokers

- Maintain 'Broker Champion' position in Motor market and grow Household panel shares
- Increase penetration of Specialist market across Motor and Household
- Grow Commercial digital SME, Open Market and Schemes business

#### Partnerships

- Optimise partnerships which are delivering mutual benefit and take action on those which are under performing

#### Direct

- Grow the aggregator portfolio by transferring the Kwik Fit panel portfolio to be underwritten by Ageas
- Increase directly underwritten aggregator new business portfolio by widening the target customer footprint
- Attract customers direct to brand by developing new propositions

# Key priority 2

## Improving claims ratio

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### Loss ratio improvement

Maintaining underwriting discipline and managing claims inflation

- Implementation of insurer hosted pricing capability
- Investment in underwriting and pricing expertise
- New Household pricing structures
- Continued investment in anti-fraud controls
- Management of claims inflation
- Action taken to price in Ogden

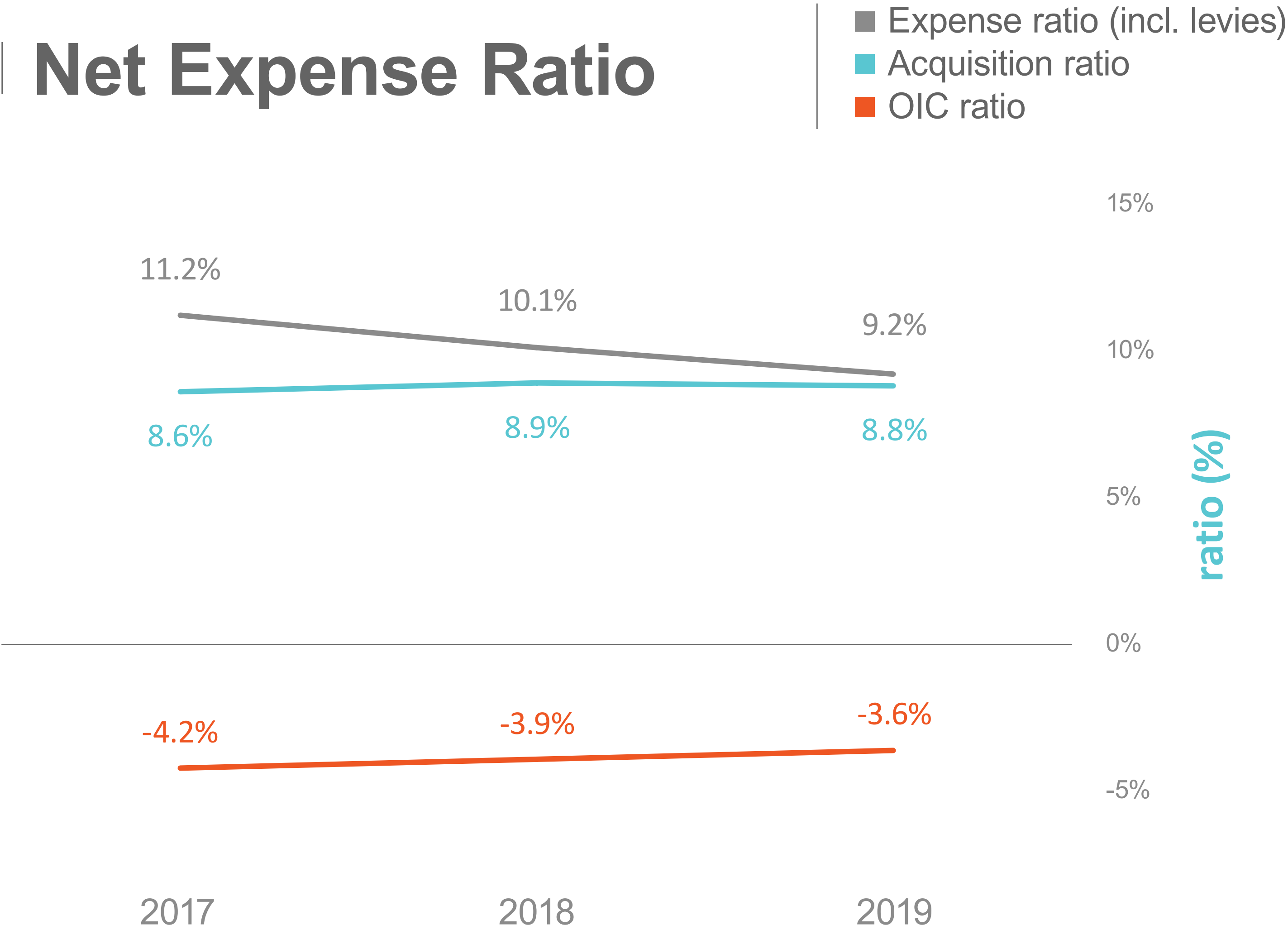


# Key priority 3

## Action on cost

- Costs are being reduced through digital enablement increasing the use of online tools for consumers and brokers
- Increased process automation across several functions
- Increasing acquisition costs are driven by investment in growth of the direct channel
- Reducing Other income due to move to writing of own risks

### Net Expense Ratio



# Key priority 4

## Our customer

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- Our purpose is to make our customers lives easier
- Industry recognition of the quality of products and services we provide
- Internal initiatives to reinforce a customer-first approach
- New propositions developed to appeal to a wider target customer base
- New digital tools to improve customers and brokers interaction



# Conclusion



# Our right to compete

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## now

- Strong market positions in our core product markets
- Strong and long standing commitment to and presence in broker channel
- Proven partnership capabilities with a number of long term relationships
- Significant market share in older (and growing) age segments
- Excellence in customer satisfaction

## in the future

- Multi product, multi channel
- Increased market share in core product markets and growth in Commercial SME
- Expert in specialist areas
- Digital propositions, support growth in direct to customer and Commercial SME channels
- Pricing sophistication across product lines with immediate speed to market
- Market leader in customer satisfaction
- Continued simplification of operating model with consolidated UK structure



Over the long term we remain committed to achieving  
**a combined ratio of 97%**

