



# 2021 Results Update

March 2022

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## 1 Headlines and Strategic Priorities

Focused UK personal lines insurer

In-force Policies **2.54m** +3.4%

Trading profit **£83.5m** +1.1%



% of Group In-force Policies



% of Turnover



Operating under two main brands, with a third brand available for test and learn

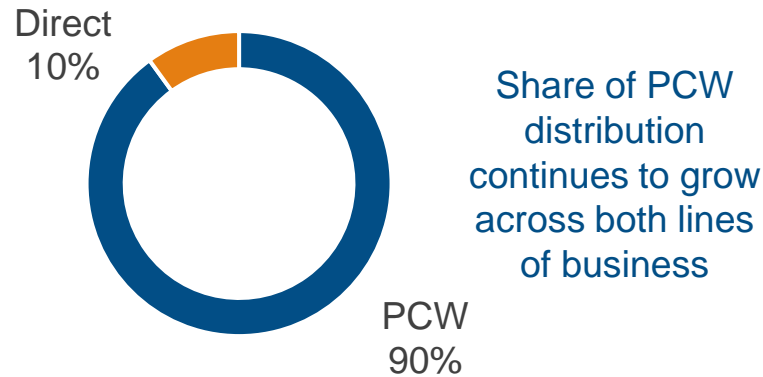
**esure** *Sheilas' Wheels*



Specialists in digital distribution  
Across Price Comparison Websites (PCWs)



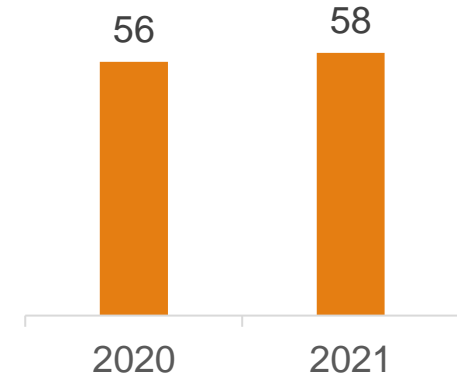
Distribution Split by Channel (%)



Strong customer proposition

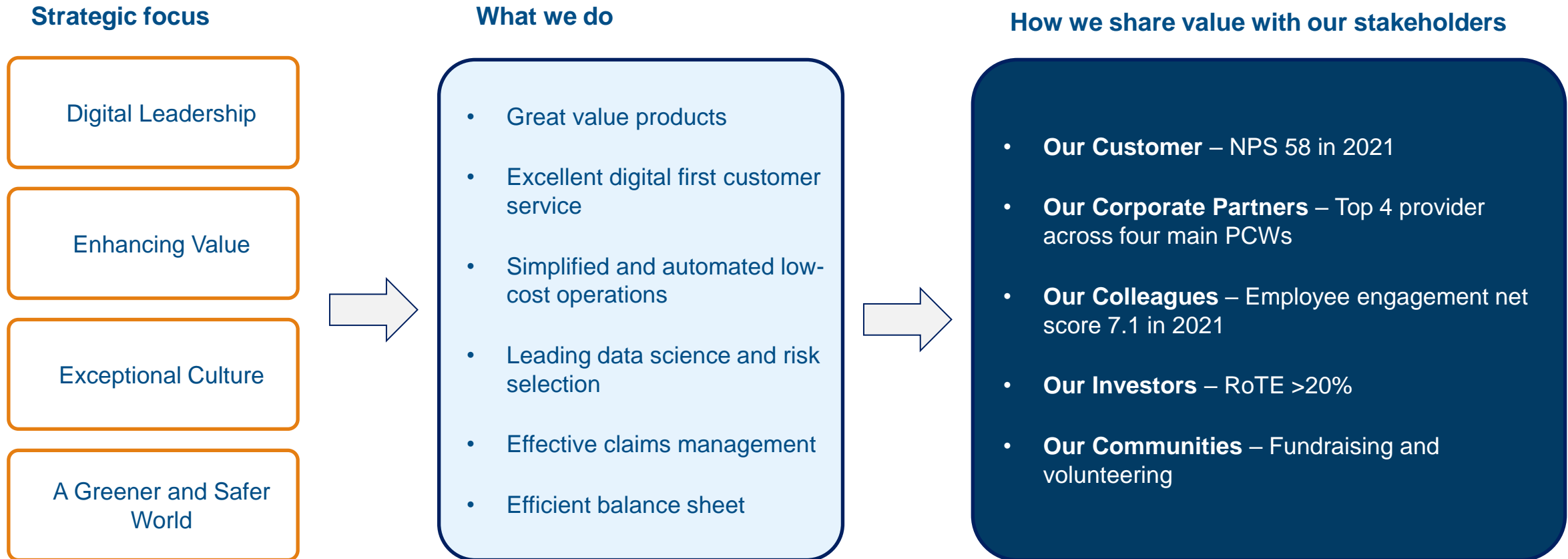


Net Promoter Score



- Strong focus on customer service
- 42% of sales and service journeys now occur online
- Relational NPS 31 – new measure going forward

esure's ambition is to become the leading scale pure-play digital insurer in the UK, executed through four pillars of the Game Changer strategy

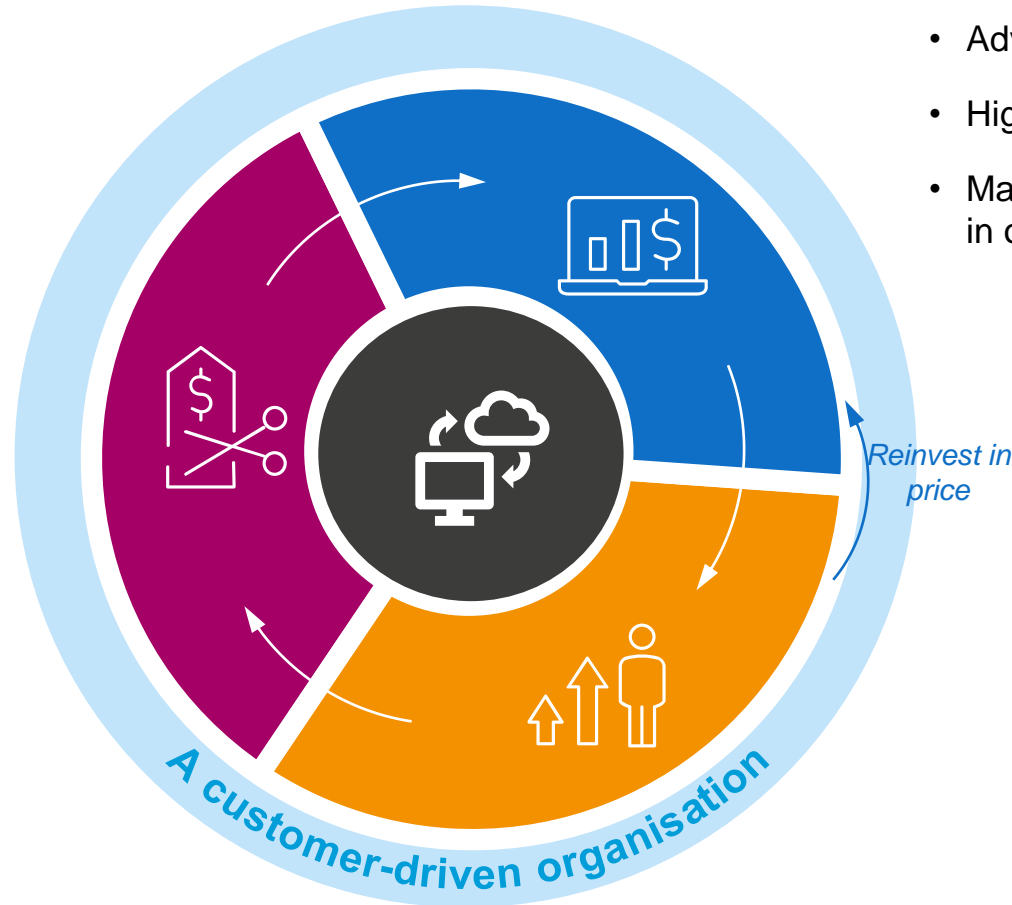


## Modern, scalable, cloud native technology

- Leading agility and speed of execution
- Sophisticated data & AI capability
- Modular platform that easily integrates with our partners

## Low unit costs

- Highly digital and automated sales, customer and claims process
- Modern, low cost technology architecture
- Leading claims indemnity



## Pricing leadership to build scale in Motor PCW

- Advanced data science
- High-velocity retail trading culture
- Mass-market reach, underpinned by cautious growth in our competitive underwriting footprint

## Differentiation to build customer lifetime economics

- Easy, personalised customer journeys
- A product portfolio that serves a broad set of customer needs and fuels our growth
- Compelling innovations to inspire loyalty and increase engagement over the policy lifecycle

## Pricing and Claims environment

- Road traffic returned towards pre pandemic levels following the first half of 2021 when they were c.25%<sup>(1)</sup> down on pre-covid levels.
- CLA Whiplash reforms were introduced across the industry from May targeting reductions in personal injury payouts
- Market price continued to soften significantly across the year (-10% by Q3<sup>(2)</sup>) as competitors sought to capitalise on the prevailing claims environment
- Heightened inflation levels feeding into damage claims across the sector
- **esure maintained disciplined approach to balancing margin and growth**

## Regulatory

- Market readiness ahead of introduction of FCA General Insurance Pricing Practices regulation from beginning of 2022
- Some evidence of market participants seeking to build volume in advance of January 2022
- Early signs of 'rational' market response
- **esure fully compliant ahead of January 2022 deadline and ready for a dynamic pricing environment**

## Technology

- Continued investment across the market in automation and data capability
- Electric and hybrid vehicles continued to gain share, and now represent c. 25-30%<sup>(3)</sup> of new car registrations.
- **esure's new platform will deliver leading digital and data capabilities**

(1) Department for Transport – Covid 19 transport statistics (2) WTW confused.com car insurance price index – average price during 2021 Q1: £538 Q2: £522 Q3: £514 Q4: £539




(3) Society of Motor Manufacturers and Traders (SMMT) 2021 data for Battery Electric Vehicles, Plug-in Hybrid Electric Vehicles, and Hybrid Electric Vehicles registrations

## 2 Financial performance



## The Group is well positioned to drive value and is looking to do so by focusing on Growth, Quality and Returns

### Financial Performance Highlights

		2021	vPY		
Growth		In-Force Policies (m)	2.54	+3.4%	<ul style="list-style-type: none"> <li>• More than 2.5m policies for the first time in esure's history                             <ul style="list-style-type: none"> <li>– Growth in Home to over 0.6m policies</li> </ul> </li> <li>• Turnover reduction reflective of softening market rates                             <ul style="list-style-type: none"> <li>– Includes £100m contribution from non-underwriting revenues</li> </ul> </li> </ul>
		Turnover (£m)	908	-3.0%	
		Net Revenue (£m)	578	-10.5%	
Quality		Loss Ratio	71.7%	+1.4pts	<ul style="list-style-type: none"> <li>• Trading profit stable due to disciplined underwriting and tight cost control</li> <li>• Profit after tax reflective of continued investment in Game Changer strategy – building leading digital platform</li> <li>• Underlying RoTE in excess of 20%</li> <li>• Solvency ratio above the target range of 140% - 160%</li> </ul>
		Unit cost per policy (£)	92.1	-2.3%	
Returns		Trading Profit (£m)	83.5	+1.1%	
		Profit Margin	14.5%	+1.7pts	
		Profit After Tax (£m)	7.7	-73.4%	
		Underlying RoTE	23.3%	-1.1pts	
		Solvency Coverage	188%	+24pts	

## Financial Performance Highlights



	<b>2021</b>	vPY
In-Force Policies (m)	1.93	+3.1%
Gross Written Premium (£m)	701.5	-4.8%
Turnover (£m)	788.9	-4.1%



	<b>2021</b>	vPY
In-Force Policies (m)	0.61	+7.0%
Gross Written Premium (£m)	106.1	+2.1%
Turnover (£m)	118.8	+4.1%

## Highlights

- Steady IFP growth, driven by new business
- Soft market rates impacted motor gross written premium and turnover
- Pricing and underwriting optimised across both product lines through the deployment of enhanced data and analysis
- Strengthened positioning with key PCW partners
- “Excellent” ratings on Trustpilot for esure and Sheila’s Wheels

## Financial Performance Highlights



	<b>2021</b>	vPY
Net Loss Ratio	<b>73.6%</b>	+3.7pts
- Current Year	<b>80.8%</b>	+5.1pts
- Prior Year	<b>-7.2%</b>	-1.4pts



	<b>2021</b>	vPY
Net Loss Ratio	<b>59.0%</b>	-14.0pts
- Current Year	<b>71.9%</b>	-11.9pts
- Prior Year	<b>-12.9%</b>	-2.0pts



	<b>2021</b>	vPY
Unit Cost per IFP	<b>92.1</b>	-2.3%


## Highlights

- Strong focus on underwriting integrity across both Motor and Home
- Motor claims frequencies increased returning closer to pre pandemic levels in H2
- Significant focus in controlling and pricing for claims inflation
- Strong prior year development on both Motor and Home

- Significant improvement in Home underwriting performance

- Group unit costs per IFP benefitted from additional scale and cost control

## Financial Performance Highlights

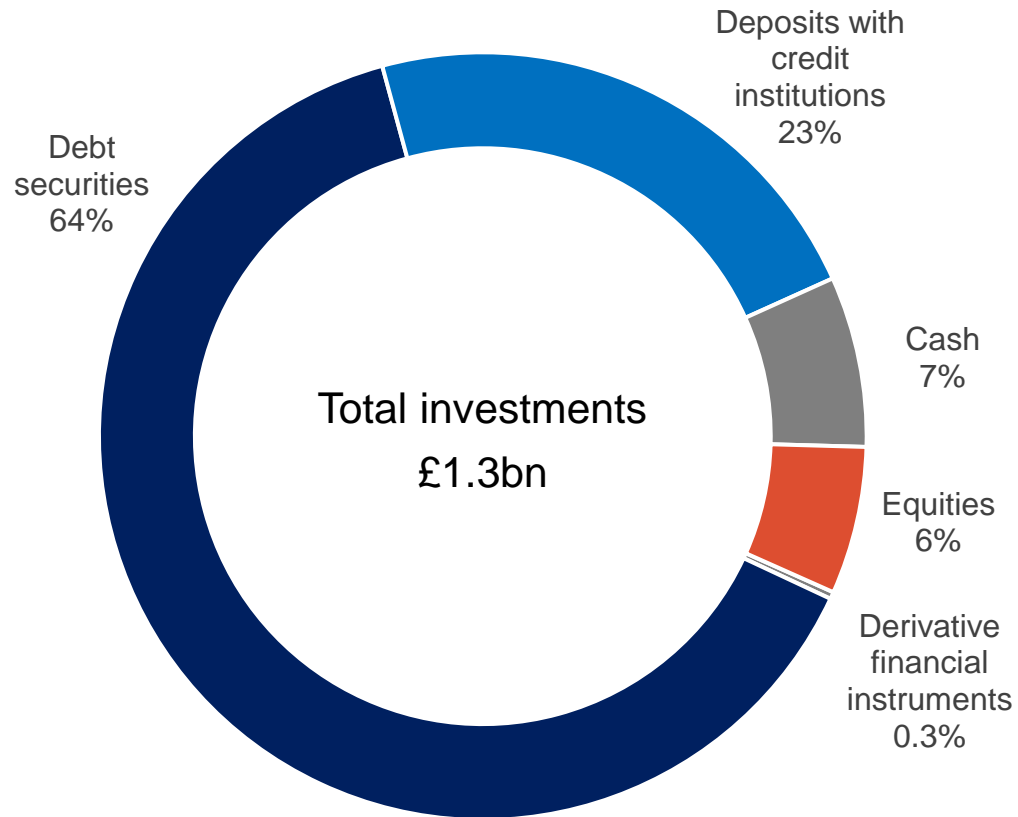
	2021	vPY
 Trading profit (£m)	83.5	+1.1%
- Motor	106.9	-15.8%
- Home	18.8	>100%
- Central	-42.2	-5.2%
Profit After Tax (£m)	7.7	-73.4%
Underlying RoTE	23.3%	-1.1pts
Solvency Coverage	188%	+24pts

## Highlights

- Improved Home profitability and lower central costs offset pressure on Motor profitability
- Lower Profit after tax reflects investment in Game Changer strategy
- Underlying RoTE stable
- Solvency coverage +24pts versus 2020, and in excess of target range 140 – 160%

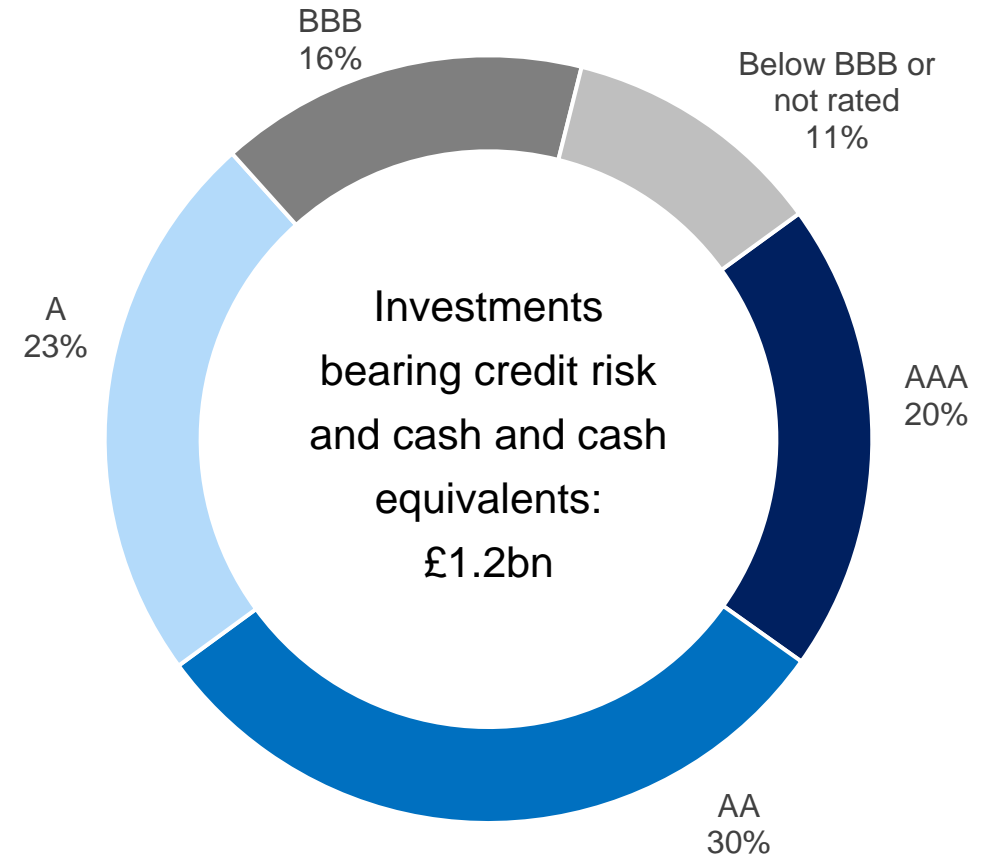
### 3 Risk Profile & Balance Sheet

Conservative approach to asset allocation...



- Significant allocation to liquid asset classes – more than sufficient to meet the needs of the Group, even in a stress scenario

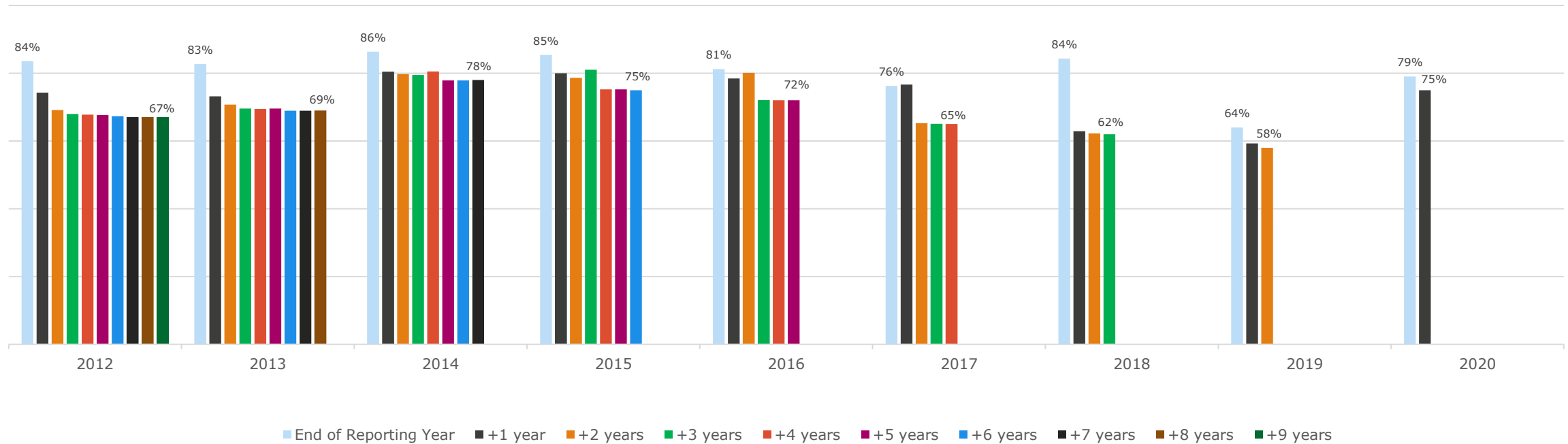
...supplemented by well-managed credit risk



- Majority of portfolio is allocated to high quality fixed income asset classes

## Accident Year Ultimate Net Loss Ratio Development Over Time<sup>(1)</sup>

% of Ultimate Accident Year Net Earned Premium



- Ultimate loss ratios have reduced over time, demonstrating conservative initial reserve estimates

Notes:

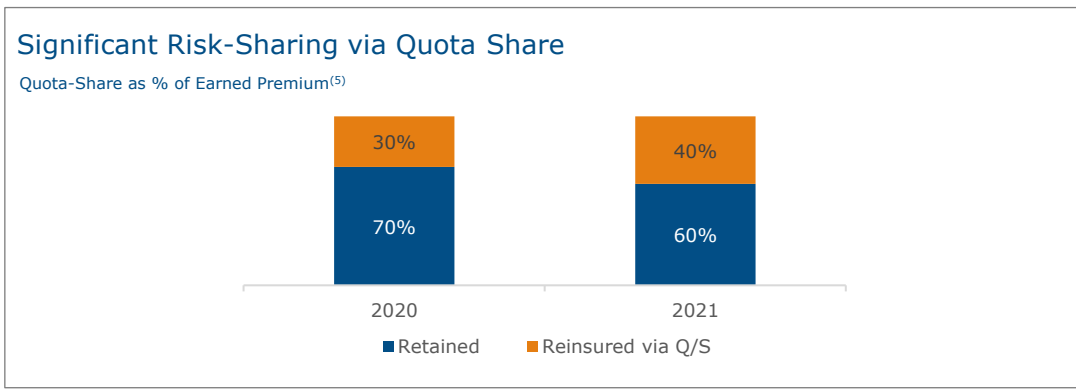
1. 2019 NEP adjusted to remove LPT premium of £487.5m; source: 2019 Annual Report and Accounts

## 3 Pillars of Reinsurance Protection:

Ongoing

1  
Quota Share<sup>(1)</sup>

- Reduces capital intensity through risk-sharing with reinsurance partner
- Supportive for ROE as esure retains 100% of higher margin non-underwritten revenue streams
- Quota Share agreement also results in Profit Commission income based on profitability of business ceded to reinsurance counterparty
  - Profit Commission receivable stood at £25.9M as at FY21 (FY20: £15.8M)<sup>(3)</sup>



2  
Excess of Loss Programme

- “Business as usual” excess of loss (XoL) programme protects against downside risk
- Supplements prudent underwriting approach
- Home programme protects against the equivalent of a 1-in-5 year event<sup>(4)</sup>

### Key Terms of 2021 Excess of Loss Programmes<sup>(6)</sup>

Home		Motor	
Type	Per Event	Type	Per Risk
Deductible	10% of Home GWP	Deductible	£1M
Limit	200% of Home GWP	Limit	Unlimited

3  
LPT<sup>(2)</sup>

- Provides protection against deterioration on older accident years
- Significantly reduced the group’s overall capital requirement

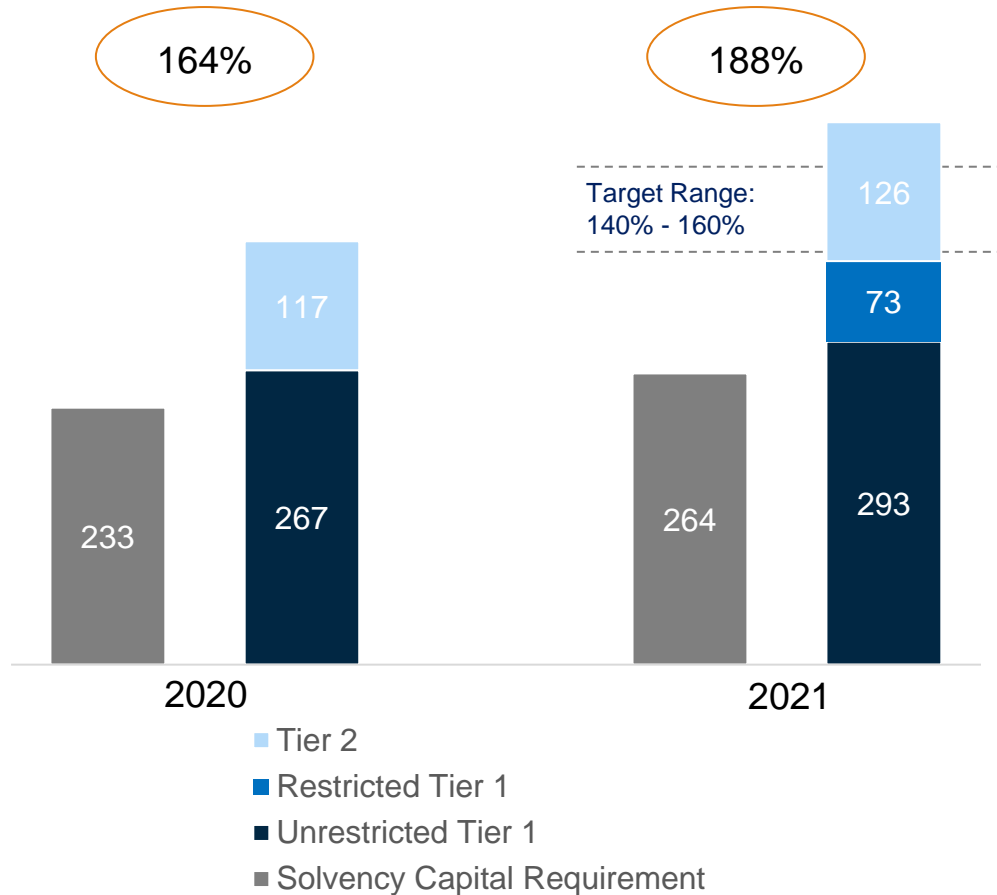
- 85% reduction in net reserves held against business earned up to H1 2019

Notes:

1. Quota Share is a pro-rata reinsurance contract in which the insurer and reinsurer share premiums and losses according to a fixed percentage
2. The LPT (Loss Portfolio Transfer), and the related Adverse Development Cover (ADC), is a reinsurance contract in which an insurer cedes claims from a defined accident period to a reinsurer and includes reinsurance should any deterioration be seen in the amounts ceded
3. Profit Commission receivables are shown on a Solvency II valuation basis
4. Based on internal analysis using climate variability modelling approach
5. Quota-Share percentage reflects original cession to reinsurance counterparty. Subsequently, esure has the ability to commute (re-assume) a portion of the risk over time
6. Home: Excess of Loss programme covers losses occurring during the 12-month period from July 2021 to June 2022. Motor: Excess of Loss programme covers risks attaching during the 12-month period from January to December 2021

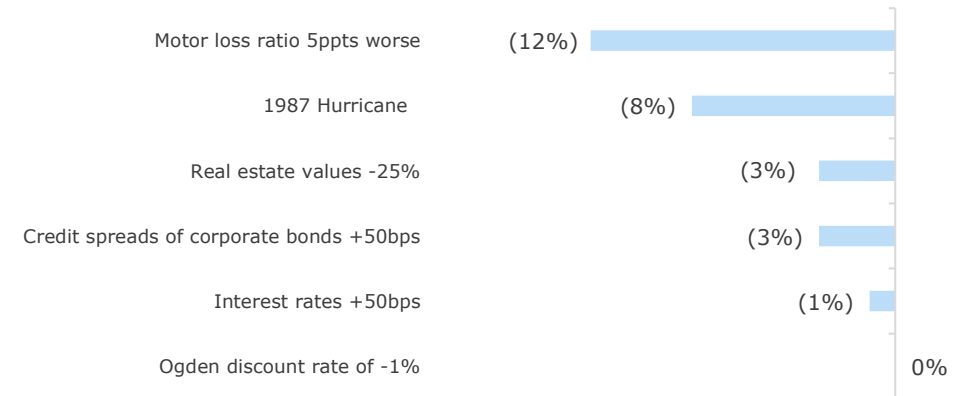


Group solvency coverage significantly above the target range



Low Sensitivity to Market Risks

Group Solvency II Ratio Sensitivities, %



## Capital Management

- In July, the Group issued £75m restricted tier 1 debt to support growth and investment in the business
- £125m Tier 2 subordinated notes remain in place and have a maturity date of 19<sup>th</sup> December 2024
- Solvency coverage +24ppts versus 2020, well in excess of target range 140 – 160%
- Solvency Capital Requirement determined using Standard Formula
- Regular assessment by the Group of the appropriateness of the Standard Formula for the business and its risk exposures

# Appendix

Year ended 31st Dec		
£m	2021	2020
Gross Written Premium	807.6	841.0
Net Earned Premium	443.2	521.5
Investment Income	17.8	14.6
Instalment Interest Income	53.9	55.6
Other income	62.7	51.9
Net revenue	577.6	643.6
Net incurred claims	(315.2)	(379.7)
Claims handling costs	(29.0)	(30.0)
Insurance expenses	(133.8)	(134.7)
Other operating expenses	(16.1)	(16.6)
Total expenses	(494.1)	(561.0)
Trading profit	83.5	82.6
Non-trading costs	(67.6)	(38.5)
Finance and other costs	(10.7)	(9.9)
Profit before tax	5.2	34.2
Tax	2.5	(5.2)
Profit after tax	7.7	29.0

### Alternative performance measures

Loss ratio	71.8%	70.4%
Expense ratio	29.3%	28.4%
Combined operating ratio	101.1%	98.8%

- Gross Written Premium decreased 4% as a result of soft market conditions
- Instalment interest income and other income contributed a further £116.6m to total income
- Quota share cession increased from 30% in 2020 to 40% in 2021 resulting in lower Net Earned Premium and Net Incurred Claims
- Insurance and other operating expenses marginally decreased as the Group continued to exercise disciplined cost control
- Non-trading costs reflective of the Group's investment in transformation activities under the Game Changer strategy, on initiatives including the digital insurance platform, new data science capabilities and systems costs

Year ended 31st Dec		
£m	2021	2020
Goodwill and intangible assets	28.7	34.7
Deferred acquisition costs	56.0	53.1
Property, plant and equipment	31.1	36.1
Financial investments	1,214.7	1,135.6
Reinsurance assets	794.8	736.9
Deferred tax assets	3.6	-
Insurance and other receivables	320.7	313.8
Current tax assets	1.7	8.9
Cash and cash equivalents	94.1	45.3
<b>Total assets</b>	<b>2,545.4</b>	<b>2,364.4</b>
Insurance contract liabilities	1,666.8	1,537.8
Borrowings	124.3	123.9
Insurance and other payables	398.2	413.4
Deferred tax liability	-	1.3
Derivative financial liabilities	1.6	0.2
<b>Total liabilities</b>	<b>2,190.9</b>	<b>2,076.6</b>
Share capital	0.4	0.4
Share premium	48.2	48.2
Capital redemptions reserves	44.9	44.9
Restricted tier 1 capital & other reserves	71.7	12.7
Retained earnings	189.3	181.6
<b>Total equity</b>	<b>354.5</b>	<b>287.8</b>

- Borrowings related to £125m 10-year subordinated notes that were issued by the Group on 19 December 2014 at the rate of 6.75% per annum
- On 22 July 2021, the Group issued £75m of Fixed Rate Reset Perpetual Restricted Tier 1 Contingent Convertible Notes at a coupon of 6%.

Turnover	includes gross written premiums, income from instalments, and other income net of the reinsurance profit share. This measure is used by management to show the scale of the Group.
Net Revenue	includes net earned premiums, income from instalments, net investment return and other income. This measure shows the total income retained by the Group having ceded premium to reinsurance partners.
Net Loss Ratio	is total losses as a percentage of net earned premium. The loss ratio gross of quota share is used to give a better year-on-year comparison of underlying underwriting performance as the size of the quota share programme has changed materially over the last four years. This is a key measure of the underwriting performance of the Group.
Unit Cost	is used to monitor the efficiency of the Group's operations. The impact of quota share is removed to better assess underlying performance.
Trading Profit	is the Group's measure of underlying, long-term profitability. It excludes the impact of costs relating to one-off activity, the categories of which are reviewed by the Audit Committee and approved by the Board.
Profit Margin	is the Group's trading profit as a percentage of net revenue. This ratio gives a measure of the underlying profitability of the Group. Given the Group's multiple income streams, this is deemed to be a more relevant measure of trading performance than traditional underwriting metrics such as combined ratio.
Return on Tangible Equity	is a measure of the Group's return on shareholder investment. Return on equity is a widely understood market measure of returns to shareholders and has been adjusted to exclude rT1 capital from equity with the related coupon treated as a financing cost.
Solvency Coverage	is the measure of available qualifying regulatory capital as a percentage of the capital the Group is required to hold under Solvency II regulations. This is a key measure of balance sheet strength.
Expense Ratio	is insurance expenses as a percentage of net earned premium. The expense ratio gross of quota share contribution is used to give a better year-on-year comparison of underlying underwriting performance as the size of the quota share programme has changed materially over the last four years.
Relational NPS	is a measure of overall customer sentiment and engagement with the Group. It is calculated by asking a random, representative sample of our customers how likely they are to recommend the Group to others on a scale of 0-10. A decision to move to Relational NPS took place for 2021.  There is therefore no comparator for 2020.

Please see the 2021 Annual Report and Accounts for further definitions.

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