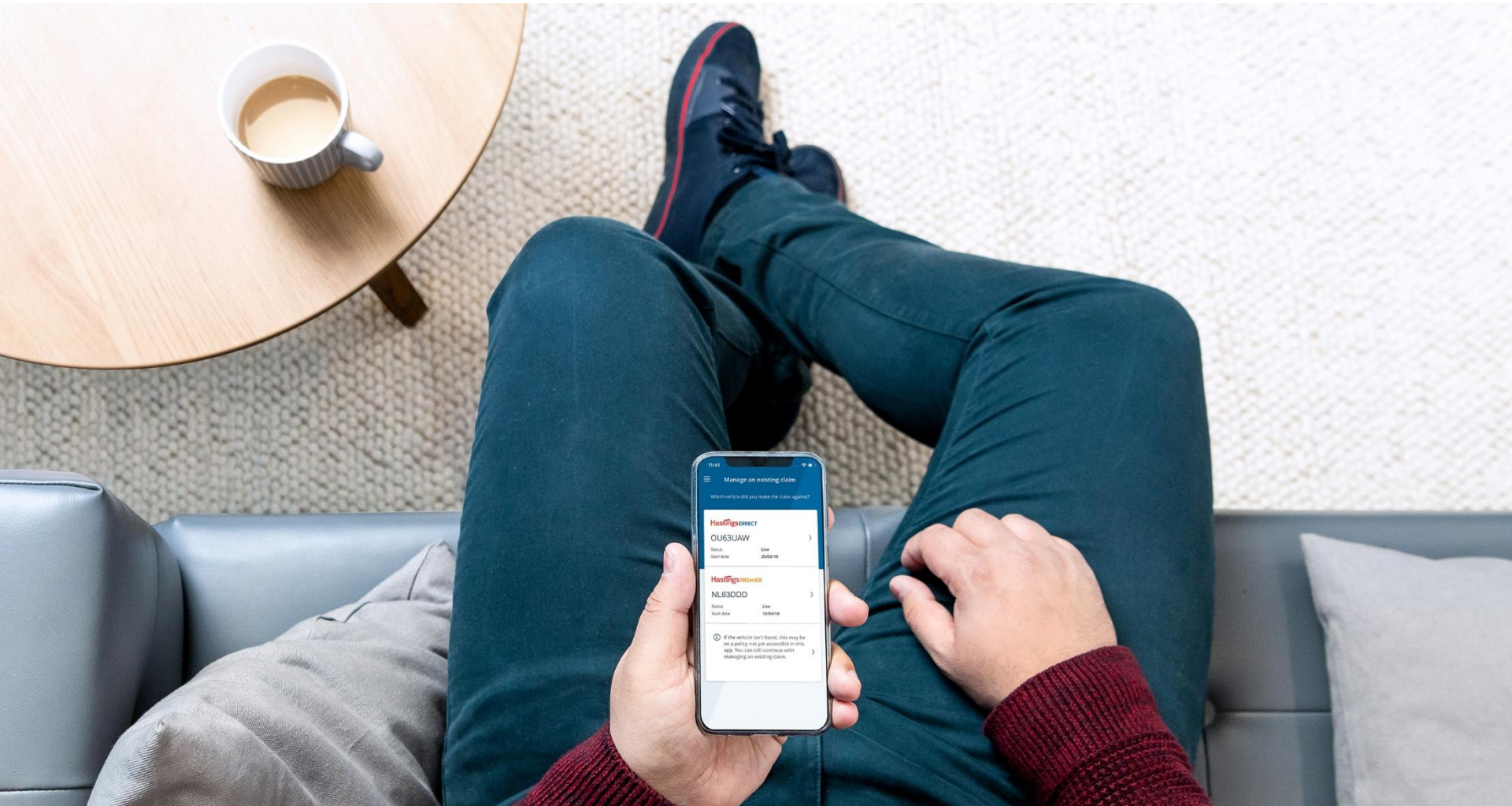
Hastings Group Holdings plc
27 February 2020

Annual results presentation



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Key highlights

1 2019 profitability impacted by market conditions

- Claims inflation at 7−8%
- 2019 market prices improving, but not yet matching claims inflation
- Adjusted operating profit, excluding Ogden impact, of £118.1m (£109.7m post-Ogden)
- Pre-Ogden loss ratio of 81.6% (82.6% post-Ogden)

2 Disciplined approach continues

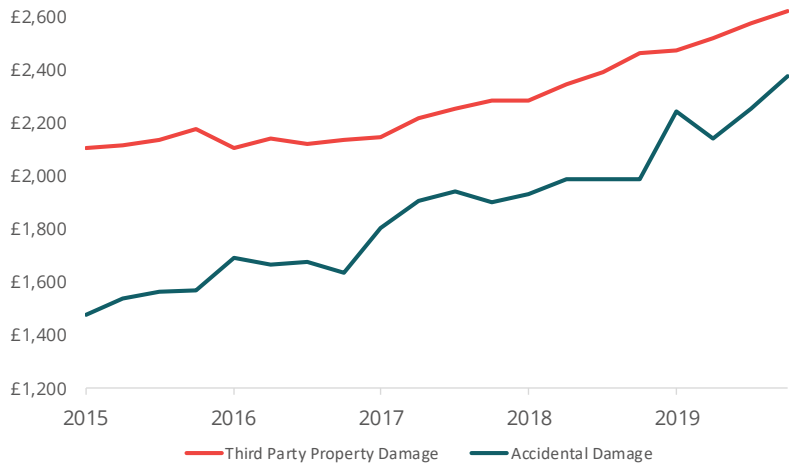
- Price increases ahead of the market throughout 2019
- Live policies of 2.85m, up 5%, driven by higher retention rates
- Stable net debt and pre-dividend Solvency II coverage ratio of 156%
- Strong group cash generation supporting a 5.5p final dividend

3 Continued good progress on strategic initiatives

- Enhanced capability in pricing, anti-fraud and retention
- New claims capabilities live, with benefits on track to be delivered
- Record level of digital adoption continues
- High colleague engagement, progress on diversity and environmental actions

Market trends

Market severities (ABI)



Underlying claims inflation of 7–8%

Elevated claims inflation in 2019, driven in particular by:

- Increased third party repair costs
- Higher accidental damage repair costs including continued inflation of paint, parts and labour
- Some inflation in larger bodily injury costs

Market average written premium inflation (ABI)

Signs of improvements in market premiums

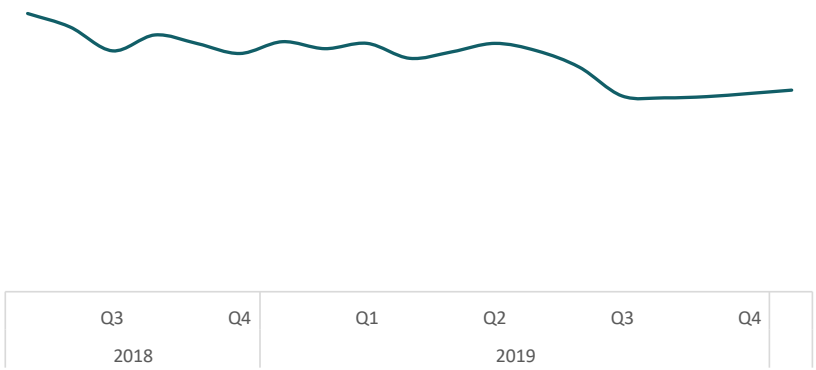
Market price increases on new business observed across much of 2019

Slightly below market claims inflation, Q4 more encouraging

Hastings has applied rate ahead of market

Pricing discipline remains a priority

Times top on price comparison websites (car)



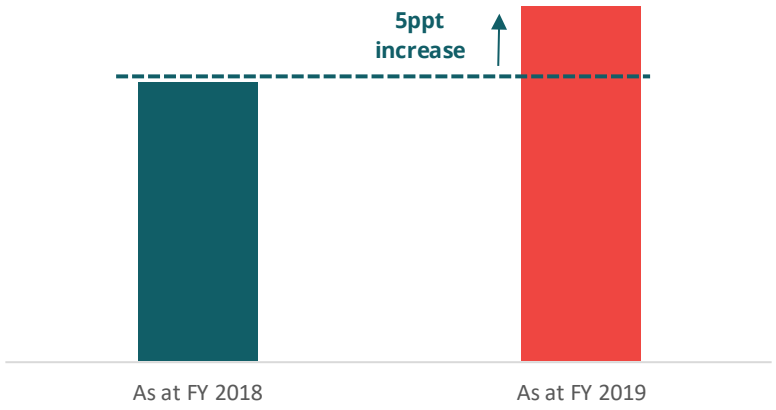
Price increases applied ahead of the market

Increased prices applied consistently during 2019

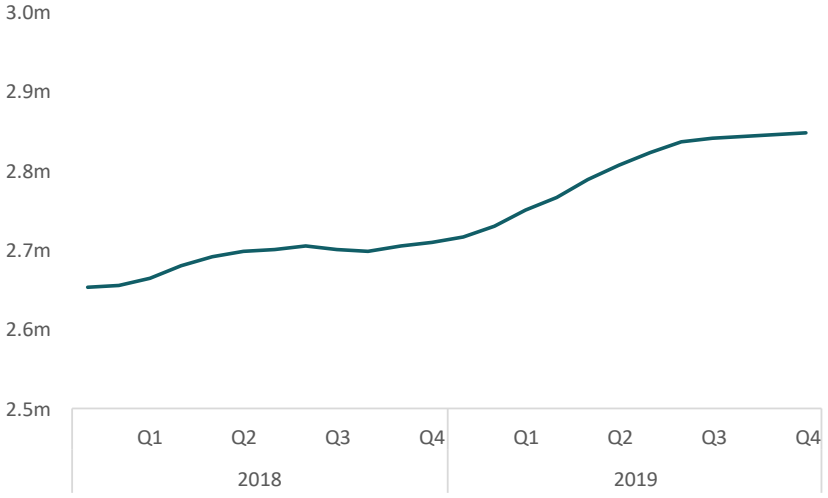
Pricing approach consistent across new business and renewals. Increased retention rate sustained during H2

Policy growth largely resulting from delivery of retention initiatives

Customer retention (car)



Total live customer policies



Loss ratio drivers

Driver	Our approach
Market wide claims inflation	• 2019 claims inflation of 7–8% • Trends monitored closely • Normal uncertainty factors including weather, claims management company behaviour and larger BI, plus whiplash reforms
Pricing (vs. market)	• Continue to price for claims inflation • Reviewed and calibrated monthly • Further price increases when market conditions allow
Claims and fraud initiatives	• Ongoing investment • Positive lead indicators from 2019 initiatives • Prudent approach to recognising benefits
Enhanced risk selection	• Ongoing investment in data and models • Consistent approach to footprint, loss ratio targets and reserving

Target loss ratio of 75–79%

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Group financials

John Worth

Group results

£'m	2019	2018	%
Gross written premiums	**961.6**	**958.3**	**0%**
Net earned premiums	**439.3**	**440.7**	**(0)%**
Retail income	283.9	273.4	**4%**
Reinsurance and investment income	22.2	42.3	
Net revenue	**745.4**	**756.4**	**(1)%**
Net insurance claims	(358.4)	(330.6)	
Acquisition costs	(76.4)	(74.6)	**8%**
Other operating expenses	(192.5)	(175.2)	
Adjusted operating profit ***(before specific items)***	**118.1**	**176.0**	**(33)%**
VAT refund in respect of prior periods	-	14.6	
Ogden impact	(8.4)	-	
Adjusted operating profit	**109.7**	**190.6**	**(42)%**
Net income	**71.5**	**148.5**	**(52)%**
Profit after tax	**69.7**	**130.6**	**(47)%**
Adjusted EPS	**10.8p**	**22.6p**	**(52)%**

Measured response to market conditions

Gross written premiums
Volume growth offset by change in risk mix

Net earned premiums
Earn through of written premiums and increased cost of reinsurance

Retail income
Broadly in line with policy growth

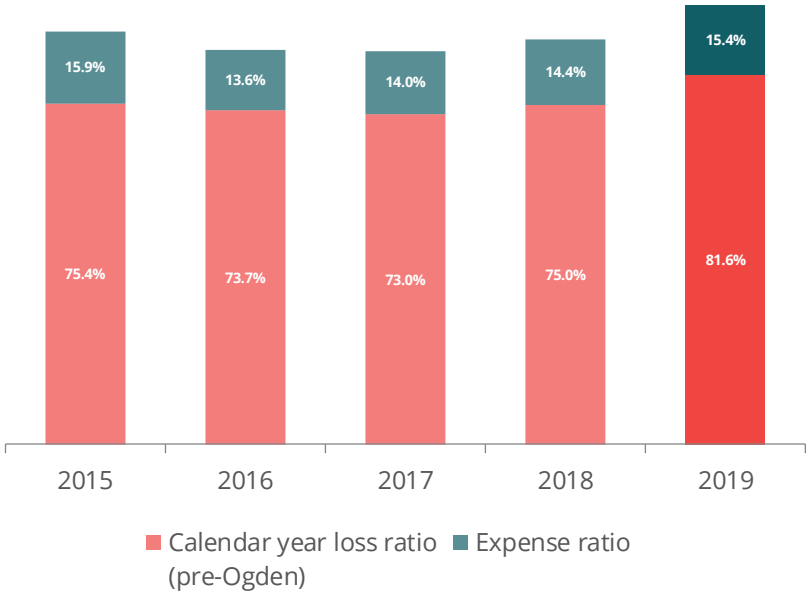
Operating expenses
Increased underwriting levies and regulatory costs, combined with strategic investment

Net income
Reflecting commencement of amortisation of the Guidewire broking platform

Update on 2019 targets

	2019	2018	Approach
Calendar year loss ratio	81.6% pre-Ogden	75.0%	75–79%
Customer policies	2.85m	2.71m	Growth, but not at the expense of profitability
Dividend payout ratio	88.0%	58.9%	65–75% through the cycle
Net debt	£232m 2.1x	£231m 1.2x	Maintain or reduce net debt

Combined operating ratio



A long track record of delivering a low combined ratio

Accident year loss ratio
Accident year loss ratio increased to 81.8% (FY 2018: 76.1%), with elevated claims inflation ahead of earned premium inflation

Expense ratio
Increased underwriting levies and investment in claims management

Inflation
Written premium inflation increased during H2 2019

Calendar year loss ratio

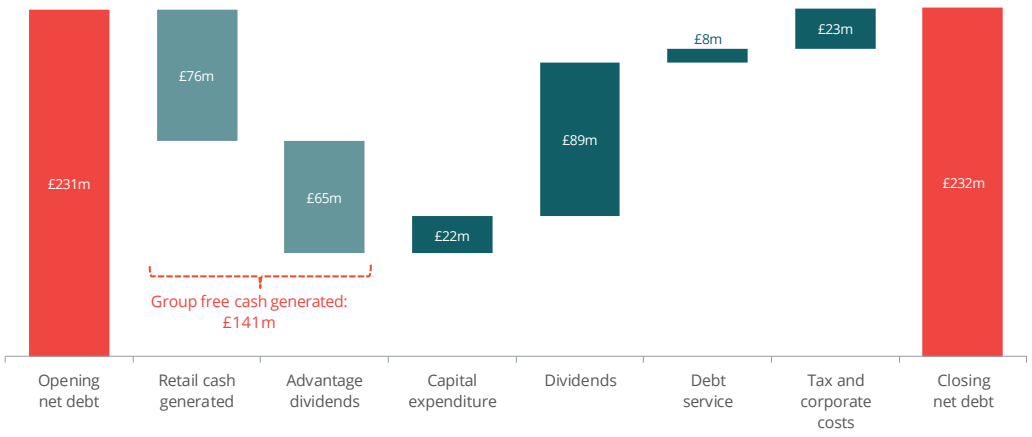
	FY 2019	FY 2018
Accident year loss ratio	81.8%	76.1%
Prior year development	(0.2)%	(1.1)%
Calendar year loss ratio (pre-Ogden)	**81.6%**	**75.0%**
Ogden impact	1.0%	-
Calendar year loss ratio (post-Ogden)	**82.6%**	**75.0%**

Average Premium & claims inflation

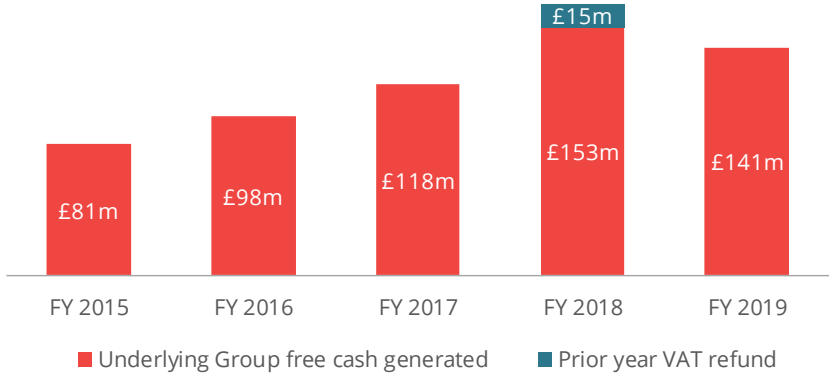
	FY 2019 (underlying)	*FY 2019 (mix effect)*	FY 2019 (reported)
Claims inflation	**7-8%**	*3%*	4%
Written premium inflation / (deflation)	**5%**	*(8)%*	(3)%
Earned premium inflation / (deflation)	**1%**	*(3)%*	(2)%

Group free cash flow

Stable net debt



Continued cash generation



Highly cash generative

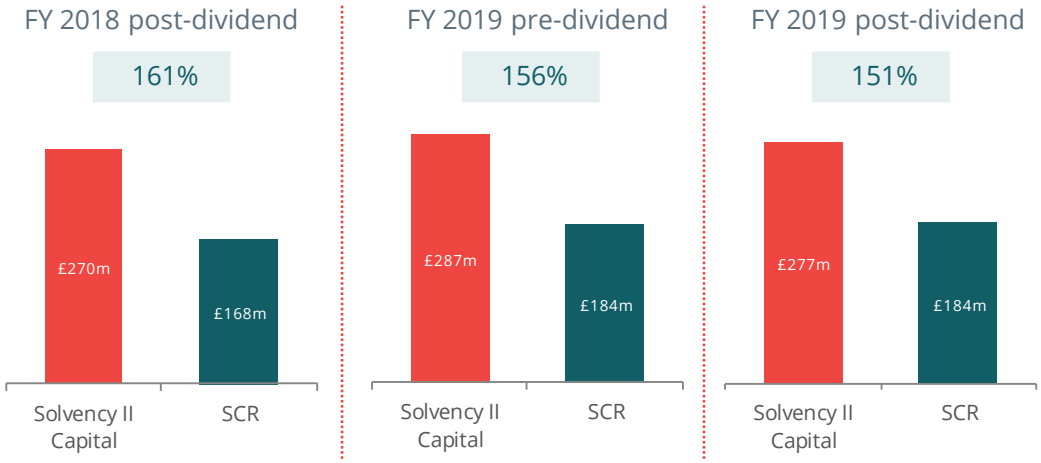
Group free cash
Strong Group cash generation of £141m, supported by £65m of dividends from Advantage

Capital expenditure
Capex of £22m, primarily driven by investment in technology

Dividend
9.0p per share final 2018 dividend paid and 4.5p interim 2019 dividend paid

Advantage capital and solvency

Solvency II coverage



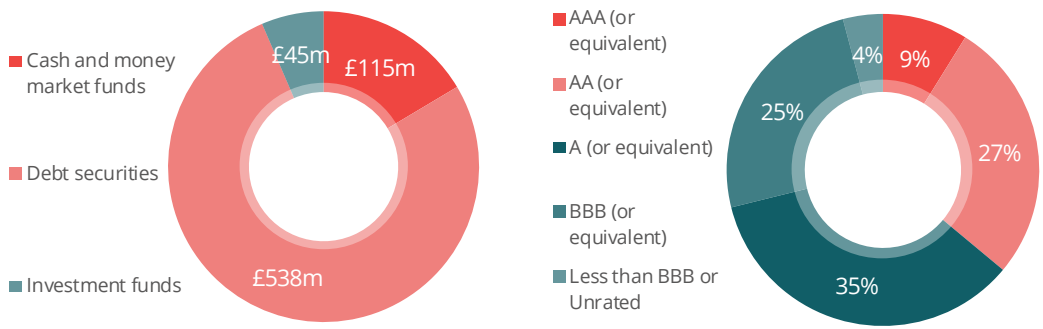
Strong Advantage capital position

Solvency II coverage ratio of 151%, post a £10m Advantage dividend (156% pre-dividend)

All Solvency II Own Funds comprise Tier 1 capital

2020 reinsurance contracts successfully renewed

Advantage investment portfolio



Low risk investment portfolio

Strongly rated portfolio with overall credit rating of A+

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Strategy progress

Toby van der Meer

Good progress delivering on our vision

Become the

Best and Biggest Digital Insurance Provider

A differentiated business model

Clear on where we want to be the best – with new investment

Targeting substantially and sustainably larger scale

Good progress to date

Pricing, analytics and anti-fraud

Customer retention

Claims transformation

Digital and technology

Increased focus in 2020+

Home

New propositions

Underpinned by

Colleagues, Culture and focus on ESG

Pricing, analytics and anti-fraud

Market leading pricing techniques

Enhanced data and analytics leading to improved risk selection

Resulting frequencies reducing

Pipeline of data enrichment projects identified for 2020

Anti-fraud

Investment in technology identifying more fraud

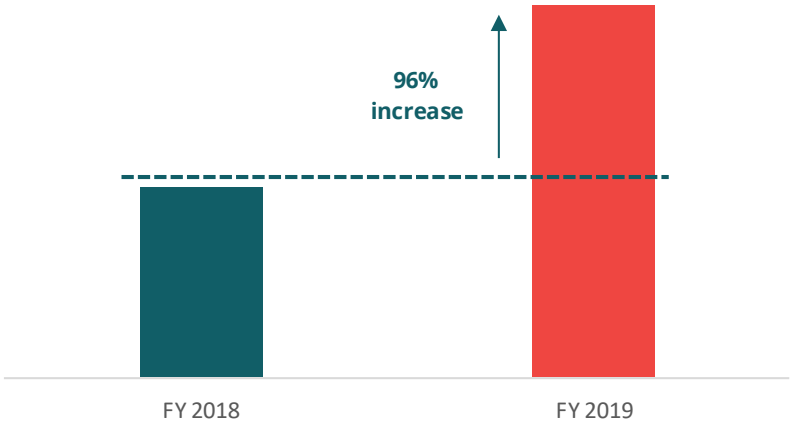
Leading to higher volume of cases

Learnings used to reduce fraud at point of quote

Enhanced data and analytics

New data sources introduced	25
Net rate price changes	Over 250

Higher volume of fraud cases identified



Claims transformation

Claims initiatives delivering

10% of repairs now done on a mobile basis

Credit hire contract delivering improved commercials

Third party property damage intervention up 8ppts

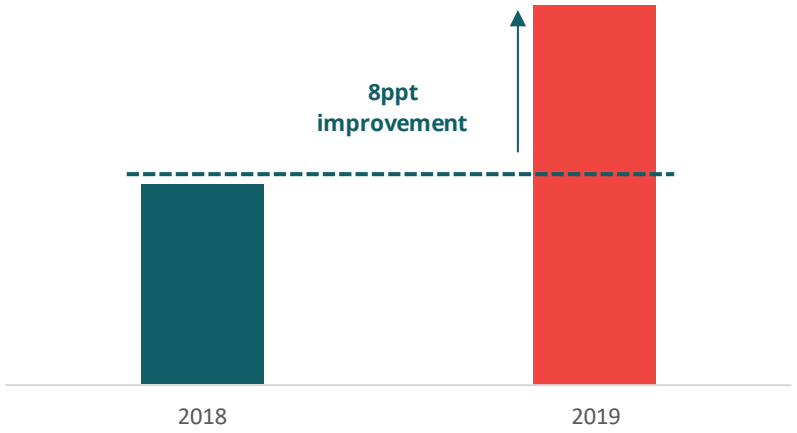
6 point increase in net promoter score

AUTOGLASS®
BodyRepair

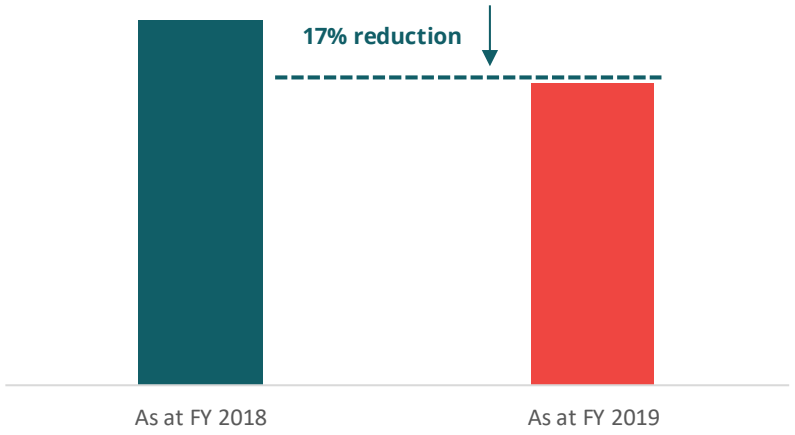
VIZION NETWORK
WHEN QUALITY MATTERS

enterprise

Intervention capture rate



Reducing open claims



Record levels of digital adoption continues

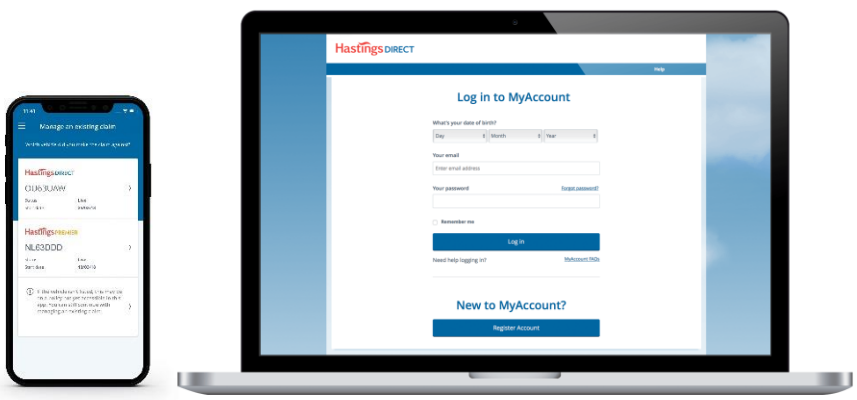
Continued progress with MyAccount and mobile app

New functionality launched including:

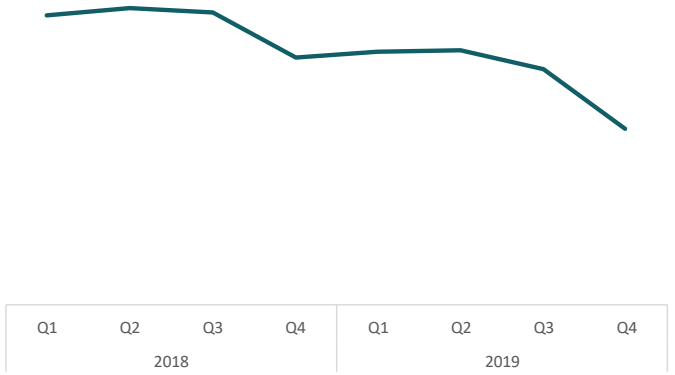
- More self-serve mid term adjustment capability
- Improvements to our digital renewals journey
- Integration of new claims repair partners' digital journeys into MyAccount
- Continued optimisation driving improvements in customer experience

Digital KPIs

Digital policy changes	38%
Mobile app downloads (as at 31st December)	550k
Mobile app iOS rating	4.7 ☆
Digital NPS	11pts Higher than overall



18% reduction in average customer service calls per policy



Home opportunity

Large, digital-focussed market

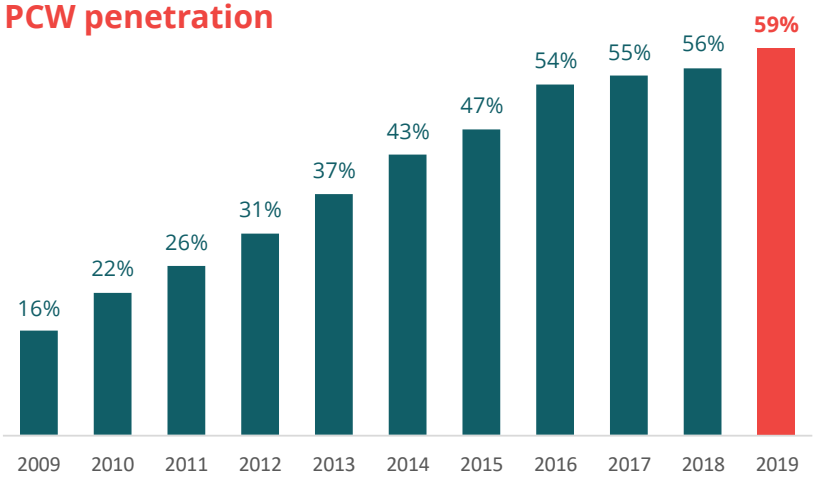
PCW penetration continues to rise

Now on Guidewire, with enhanced product and brand offering

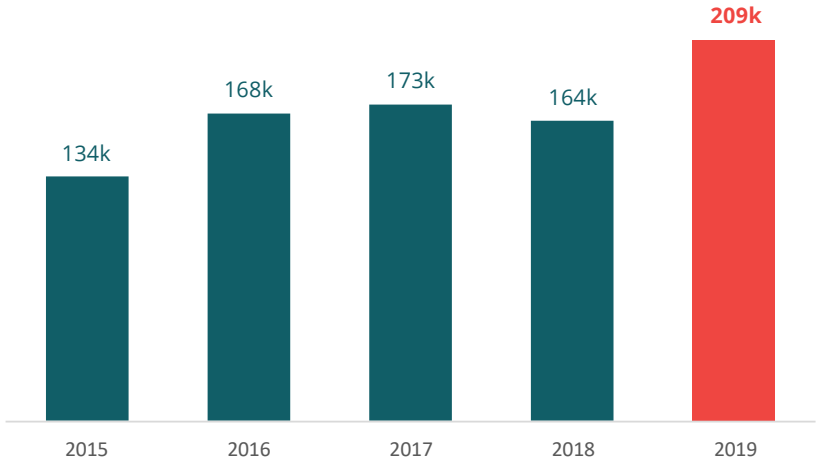
Underwriting capability continues to build

Customer policies increasing, but approach remains disciplined

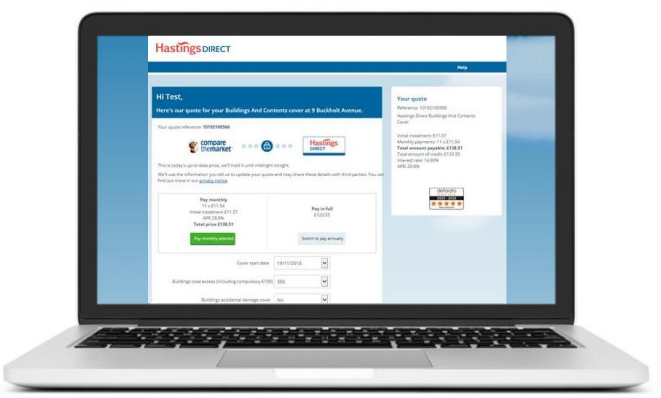
PCW penetration



Live customer policies



Enhanced product offering



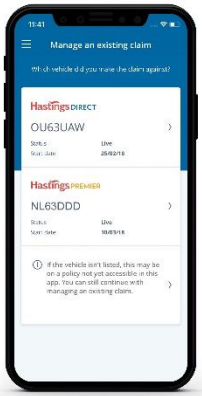
Test and learn approach to new propositions

New generation technology, without legacy

Diversification: consumer-led tests

Our technology stack enables a low-cost approach to test and learn

Systems flexibility will enable us to trial multiple new propositions in 2020+



App based products

Multi-year propositions

Other diversification

Environmental, social and governance (ESG)

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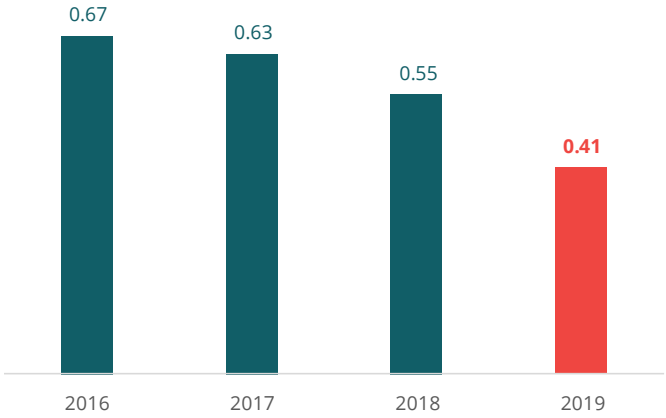
Culture

HASTINGS 4Cs
COLLEAGUES
CUSTOMERS
COMPANY
COMMUNITY

Environment



CO_2e per full time colleague

Diversity and wellbeing

30% Club
GROWTH THROUGH DIVERSITY

YOUR VOICE
Make sure you have your say and shape **your future!**

time to change
let's end mental health discrimination

Summary and outlook

1. Adverse market environment in 2019. Encouraging signs in H2 though uncertainty remains
2. Pricing discipline remains a priority
3. 2020 trading has started in line with expectations
4. Good progress on initiatives
5. Remain focussed on building the UK's best and biggest digital insurance provider

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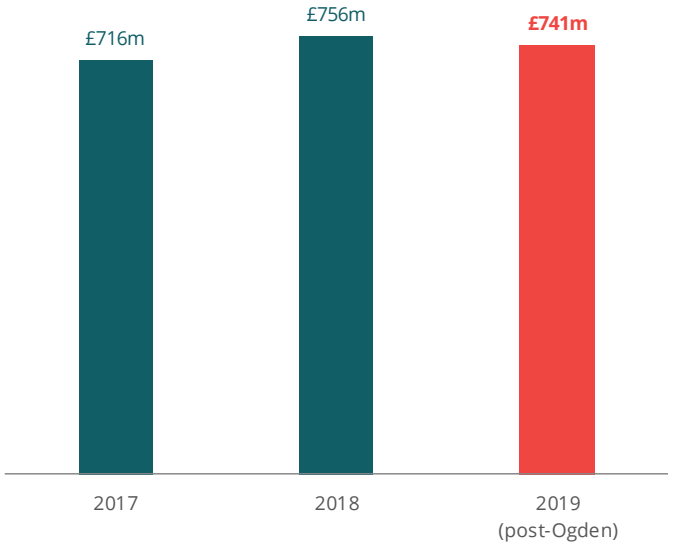
Q&A

Appendix

Net revenue



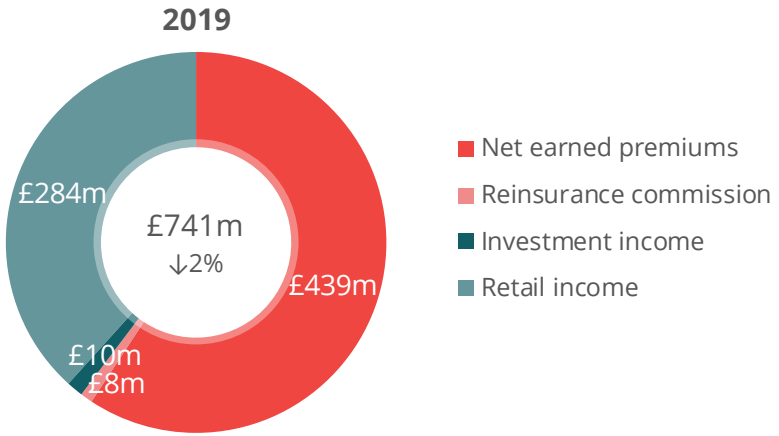
Net revenue stable

Net earned premiums
Broadly flat, driven by 2018 written premium deflation and the increased cost of XoL reinsurance earning through, offset by increased policy count

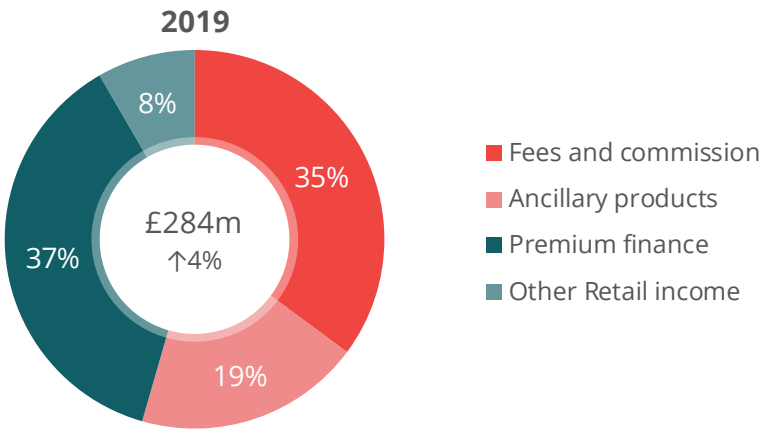
Retail revenue
Growing broadly in line with policy count

Diversified retail revenue streams

Net revenue breakdown (post-Ogden)

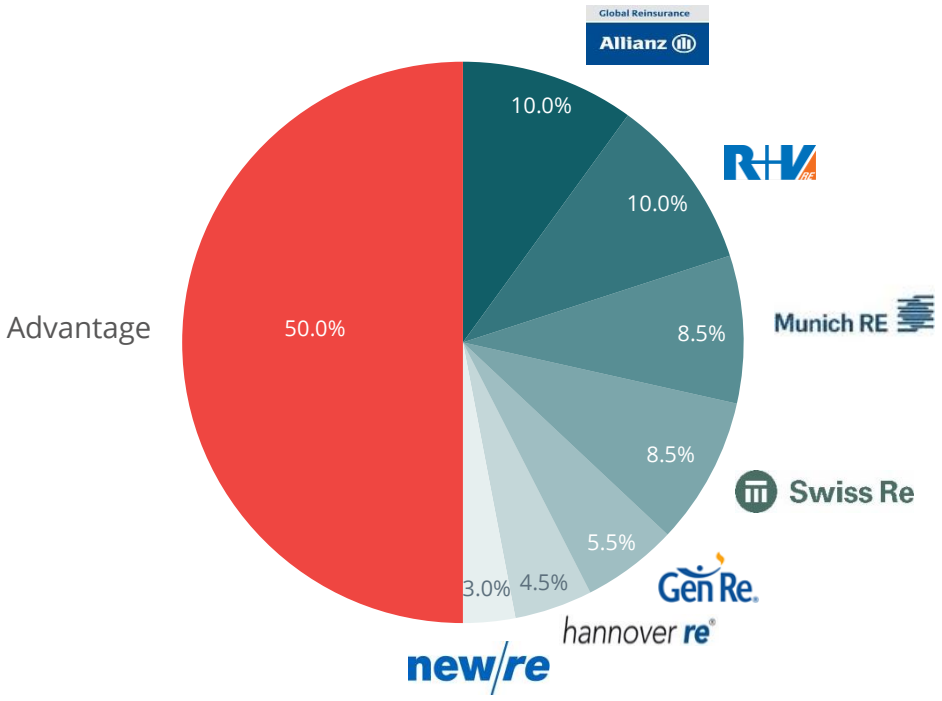


Retail revenue breakdown



Motor reinsurance

Quota share (QS) reinsurance programme (2020)



Excess of Loss (XoL) reinsurance programme (2020)

AICL 50% of first £1m	XoL Panel - All costs over £1m per event
QS Panel 50% of first £1m	

Capital efficient reinsurance programme

QS contracts

All contracts placed on a continuous basis

Reinsurer margins on 2020 programme broadly maintained providing stability in overall cost of QS

Well diversified, high quality reinsurance panel, all rated AA- or above

XoL

Unlimited XoL cover on a traditional programme basis

Maintained at historic levels, fully covering losses exceeding £1m per event

2 new reinsurers introduced into the 2020 programme

Adjusted operating profit to profit after tax

£'m	2019	2018
Adjusted operating profit (pre-Ogden)	**118.1**	**190.6**
Ogden impact	(8.4)	0.0
Adjusted operating profit	**109.7**	**190.6**
Operational amortisation and depreciation	(15.8)	(7.5)
Finance costs	(9.6)	(8.5)
Underlying profit before tax	**84.3**	**174.6**
Underlying taxation expense	(12.8)	(26.1)
Net income	**71.5**	**148.5**
Non-operational amortisation and other fair value adjustments	(2.2)	(21.7)
Tax effect of the above adjusting items	0.4	3.8
Profit after tax	**69.7**	**130.6**

Group balance sheet

£'m	2019	2018
Assets		
Goodwill	470.0	470.0
Intangible assets	87.7	80.5
Property and equipment	22.6	22.7
Deferred income tax asset	5.6	6.6
Reinsurance assets	1,365.0	1,212.1
Deferred acquisition costs	34.3	34.5
Insurance and other receivables	450.5	452.3
Financial assets at fair value	583.4	558.0
Cash and cash equivalents	160.9	146.0
Total assets	**3,180.0**	**2,982.7**
Liabilities		
Loans and borrowings	245.3	244.3
Insurance contract liabilities	2,023.7	1,820.8
Deferred income tax liabilities	8.0	8.5
Current tax liabilities	3.2	14.7
Insurance and other payables	257.7	243.4
Total liabilities	**2,537.9**	**2,331.7**
Total equity	**642.1**	**651.0**
Total equity and liabilities	**3,180.0**	**2,982.7**

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