

# FBD Holdings plc

## 2018 Full Year Results

February 27<sup>th</sup> 2019



### Forward looking statements

This presentation contains certain forward-looking statements. Actual results may differ materially from those projected or implied in such forward-looking statements. Such forward-looking information involves risks and uncertainties that could affect expected results.



2018 FULL YEAR RESULTS

# Overview

→ Fiona Muldoon, CEO



# Key Highlights



## Full year profit €50m before tax

- Follows profit of €50m in 2017
- Includes exceptional loss of €12m following purchase and cancellation of convertible bond



## Dividend

- Proposed 2018 dividend of 50 cent per share compared to 24 cent in prior year
- 40% pay-out ratio approx



## 81.2% Combined Operating Ratio

- Underlying current year COR of 89.7%
- Positive prior year reserve movements of €29m
- Storm Emma cost included of €6.6m



## GWP of €372m (2017:€372m)

- New Business count up 11% on 2017, increase in private motor customers
- Good retention of existing customers in face of aggressive competition



## Capital

- Book Value 818c (Net Asset Value)
- Return on Equity (ROE) of 15%
- Strong solvency position of 164%, after allowing for dividend proposed in May 2019



## Key strategic targets met

- Fairfax convertible notes purchased and cancelled. New €50m bond issued at lower coupon
- Increasing brand awareness. Olympic Team Ireland sponsorship launched
- Partnership with Post Insurance live in September 2018

# Continuing Strong Delivery



Strong underwriting  
discipline in the  
face of competition



2018 ROE  
**15%**



Brand awareness  
and New Business  
levels up



NAV  
**818c**



Excellent Claims &  
Cost Control



Strong Capital  
Accretion,  
Robust SCR



COR  
**81%**

# Continuing Strong Delivery



## Sales & Distribution

- **Underwriting discipline and risk selection** across all products and channels
- **Motor** performing well, improved pricing and underwriting sophistication
- **New commercial products** to launch in 2019
- **Farm products** providing widest range of coverages
- Strong new business **conversion levels** and **retention** of existing business in the face of aggressive competition
- **Post Insurance** partnership live since September
- **Baggot St**, Dublin branch opened, relocations in **Limerick and Cork**

## Brand & Marketing

- **Team Ireland sponsorship**: FBD is proudly supporting Irish athletes at the Tokyo Olympics 2020
- New **advertising campaign** in H1 2019
- Major **branch investment** and re-branding
- Relaunched **website** driving online sales
- **Sponsorship** of Bloom, the National Ploughing Championships and the Tullamore Show
- Continued investment in **farm safety campaigns**

Profitable 2018 performance across all product lines and channels



2018 FULL YEAR RESULTS

# Financial Performance

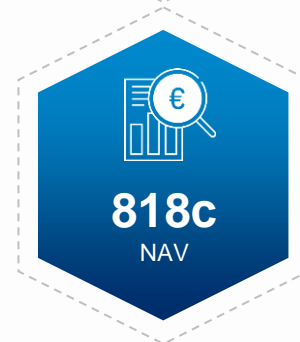
→ John O'Grady, CFO



# 2018 Full Year Results

- Excellent 2018 results include Storm Emma costs of €7m and €29m positive prior year reserve development

	2018	2017
GWP	€372m	€372m
Profit before tax	€50m	€50m
EPS	122c	123c
NAV	818c	784c
ROE	15%	17%
	2018	2017
Loss ratio	56%	63%
Expense ratio	25%	23%
Combined Operating Ratio	81%	86%
Total investment return-annualised	(0.5%)	1.2%
▪ Income statement	0.2%	0.9%
▪ OCI	(0.7%)	0.3%



# 2018 Full Year Results

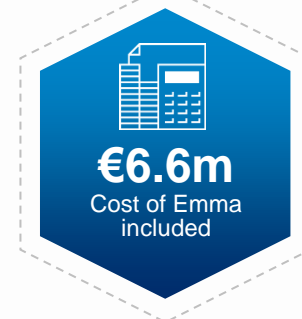
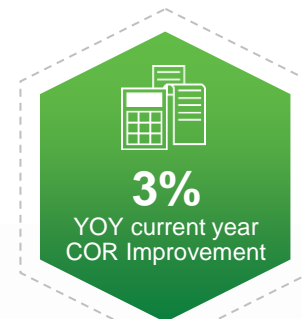
	2018 €'000s	2017 €'000s
Gross written premium	371,504	372,459
Net earned premium	337,903	308,226
<b>Net claims incurred (incl. MIBI)</b>	<b>(190,431)</b>	<b>(205,089)</b>
Other underwriting expenses	(84,054)	(75,908)
<b>Underwriting Result</b>	<b>63,418</b>	<b>44,935</b>
Investment income	2,481	9,361
Finance costs	(5,453)	(6,289)
Other	1,442	3,444
<b>Sub total</b>	<b>61,888</b>	<b>51,451</b>
<b>Exceptional items</b>		
Loss on purchase and cancellation of convertible debt	(11,836)	-
Restructuring costs	-	(1,715)
<b>Profit before tax</b>	<b>50,052</b>	<b>49,736</b>



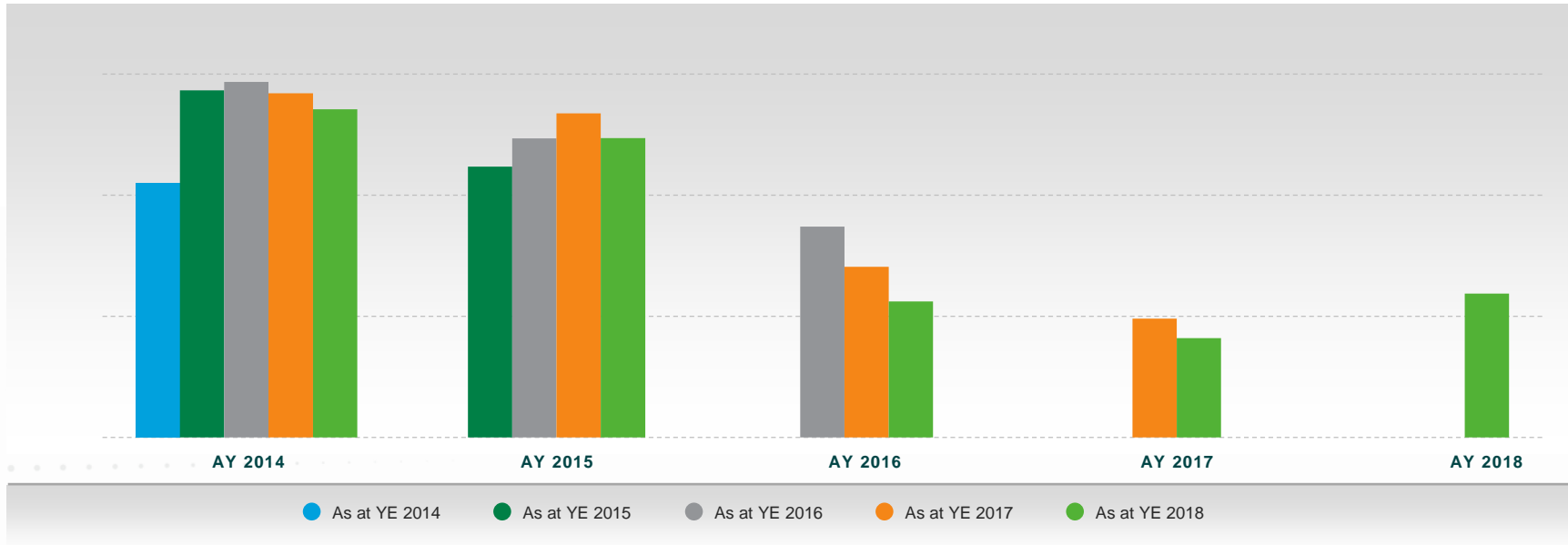


# 2018 Full Year Results

	2018		2017	
	€m	%	€m	%
<b>Current Year Combined Operating Ratio</b> (Excluding Cat weather)	<b>41.3</b>	<b>87.7%</b>	<b>29.3</b>	<b>91.0%</b>
Nat Cat weather - Storm Emma/Ophelia	(6.6)	2.0%	(5.4)	1.6%
<b>Current Year Combined Operating Ratio</b> (Including Cat weather)	<b>34.7</b>	<b>89.7%</b>	<b>23.9</b>	<b>92.6%</b>
Prior year reserve release/strengthening	26.9	(8.0%)	15.4	(4.7%)
MIBI levy release and related obligations	1.8	(0.5%)	5.6	(1.7%)
<b>Reported Combined Operating Ratio</b> (Including Storm Emma)	<b>63.4</b>	<b>81.2%</b>	<b>44.9</b>	<b>86.2%</b>



# Claims Reserve Development (Net Loss Ratios)



1. Positive prior year development predominantly from accident years 2015 to 2017
2. Some stability in claims awards has led to improved settlement of prior year claims
3. Large claims experience has been better than initially expected

# Investment Allocation

- Increased allocation to risk assets and government bonds in line with the Strategic Asset Allocation target

	31-Dec-18		31-Dec-17	
Underwriting investment assets	€m	%	€m	%
Deposits and cash	146	15%	230	22%
Corporate bonds	498	48%	499	47%
Government bonds	297	28%	259	25%
Equities	24	2%	22	2%
Investment property	18	2%	18	2%
Other risk assets	55	5%	24	2%
<b>Total</b>	<b>1,038</b>	<b>100%</b>	<b>1,052</b>	<b>100%</b>

- 0.5% return on portfolio in a challenging investment environment
- The OCI return of -0.7%, driven by widening spreads in the corporate and eurozone bond portfolio

€33m

Increase in  
Risk Assets



Increase  
in Government  
Bonds



Corporate Bond  
portfolio with an  
average credit  
rating of A-

# Challenging Investment Environment

Challenging year for markets with all major asset classes delivering disappointing returns.

## OCI return: -0.7%

### Corporate Bonds

- Significant spread widening, particularly during Q4 2018
- Reduced duration prevented greater losses

### Government Bonds

- Widening in Eurozone spreads, particularly Italy
- Italian exposure reduced mid 2018 by €15m

## Income Statement return: 0.2%

### Risk Assets

- Increased diversification by introducing Emerging Market (EM) Debt during 2018
- Negative returns on Equity and Emerging Market debt funds

2018 FULL YEAR RESULTS

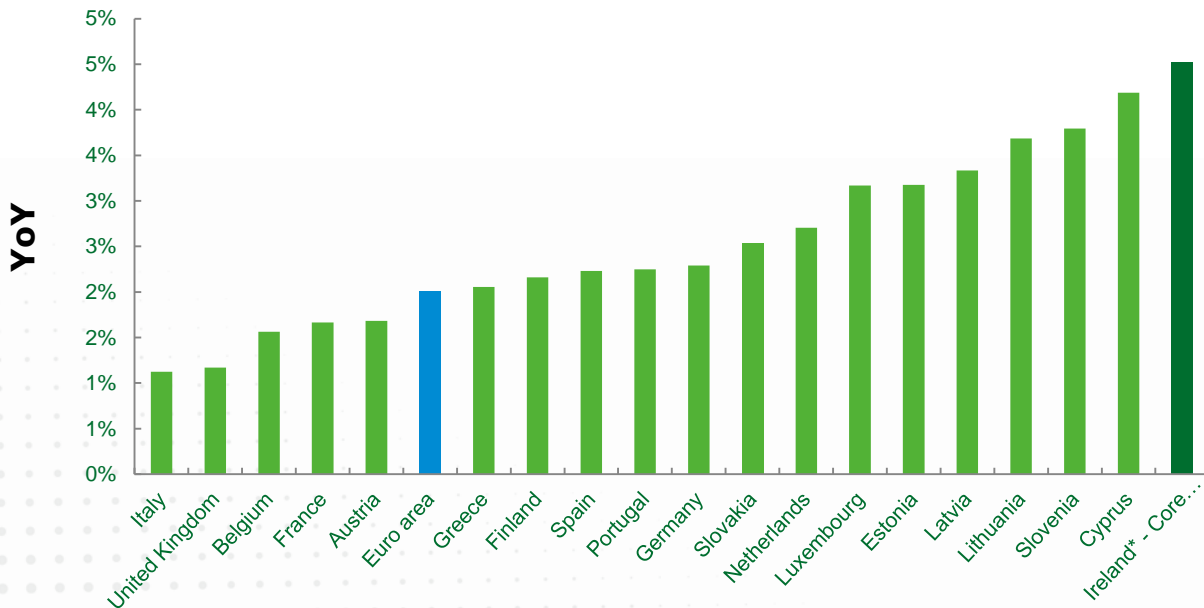
# Environment, Outlook & Summary

→ Fiona Muldoon, CEO



# Irish Environment

## 2019 domestic demand growth forecasts by country



Source: AMECO, Goodbody \*Core Domestic Demand



The **Irish economy** comes into 2019 on the back of growing employment, wages, and incomes. Business investment is at record levels and the global footprint of Irish companies has never been larger

*(IBEC Q4 2018 Economic Outlook)*



GDP is expected to grow by **8.9 per cent in 2018**, followed by 4.5 per cent growth in 2019. Unemployment is expected to decline to 5.7 per cent in 2018 and 5.1 per cent in 2019

*(ESRI – September 2018)*



...the fact remains that a hard **Brexit** which reduces market access for Irish exports would have a material **negative effect on Irish agriculture** and adjusting to this in the short-term would prove a considerable challenge

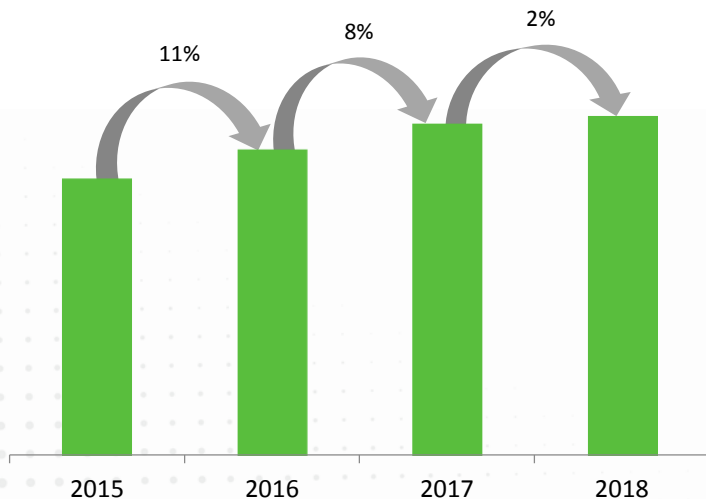
*(CBI Deputy Governor)*



# Average Cost of Injury Settlement

All risk & all personal injuries

12 Months to December



■ Average Cost 12 months to December



**Claims inflation has moderated** but continues to be evident



**Mid-sized injury claims** display higher rates of inflation. Personal Injuries Commission reported awards are 4x UK level



**Special damages and legal costs still increasing**



**Property and Motor Damage average costs increasing** with busy construction sector and more sophisticated technology in cars

# Weather 2018 — Exposure to natural catastrophes contained by reinsurance programme and good H2 winter weather

## Storm Emma



Just over 1,200 **claims received**. Characterised by fewer claims at a higher value than Storm Ophelia



**Net cost €6.6m** after reinsurance recoveries and reinstatement premium



**Southern counties of Ireland most impacted** for majority of claims



Storm Emma and Storm Ophelia over a single winter shows **efficacy of our reinsurance**

# Fairfax Bond Refinancing

- €50m raised through new bond at a lower coupon of 5%
- Proceeds plus cash used to purchase €70m convertible bond from Fairfax for €86m on 9 October 2018
- Reduced interest annual charge from €5m to €2.5m
- Existing shareholders avoid dilution
- Strong statement of investor confidence in FBD



# Dividend Recommendation

- Dividend policy based on pay-out range of 20-50% of profits
- Strong profits in 2018 and robust capital position
- Solvency Capital Coverage of 164% under standard formula, after allowing for proposed dividend
- Proposed dividend of 50 cent per share; pay-out ratio of 40%
- Strong belief in future capital position





# Summary



ROE of 15%



Our **81% Combined Operating Ratio** is excellent and a strong indication of on-going underwriting discipline and quality risk selection.



**Doubling of dividend to 50 cent per share:**  
40% pay-out



Our focus is on **sustainable profitable underwriting** in our core markets



We want to be the **Irish insurer of choice**. Our **customers and communities are at the heart of who we are**



# This creates sustainable growth in Book Value



To deliver low double digit Return on Equity (“ROE”) through the cycle we continue to target a COR in the low 90’s



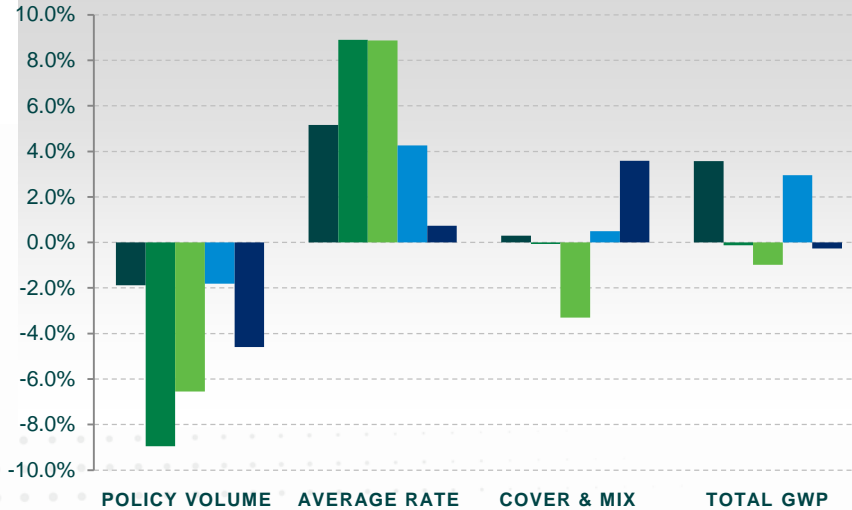
2018 FULL YEAR RESULTS

# Appendix



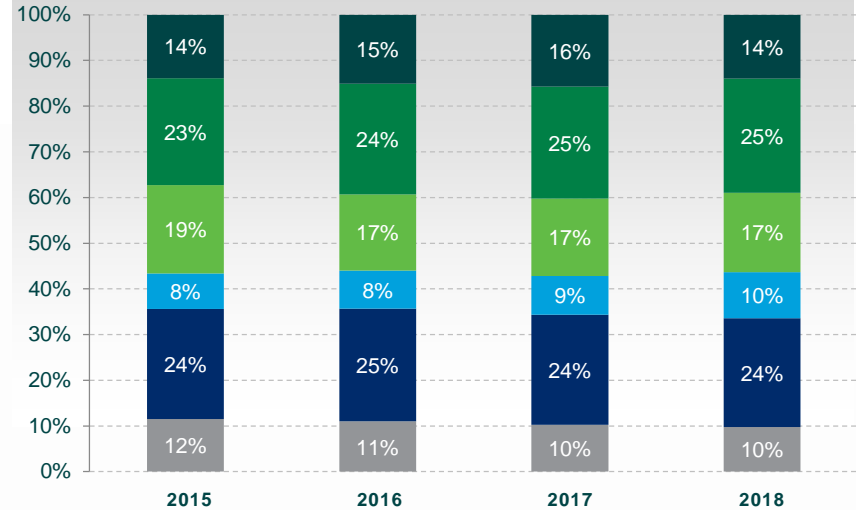
# Business Update

## CHANGE IN GWP (Direct & Indirect)



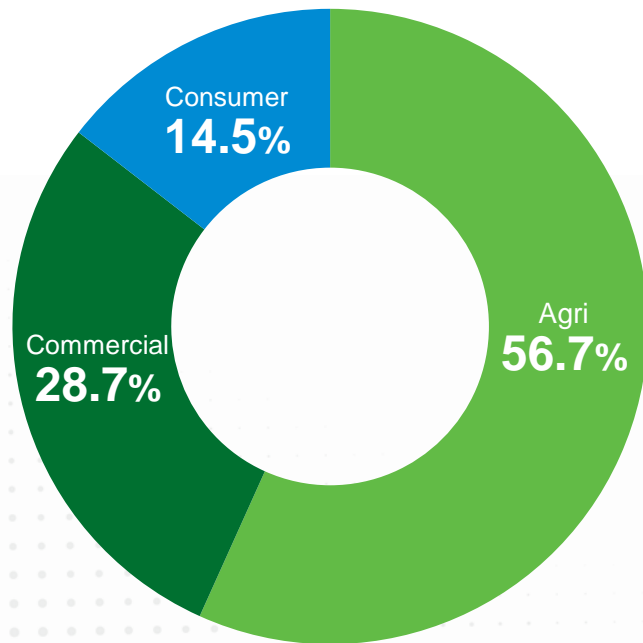
● 2014 vs 2013 
 ● 2015 vs 2014 
 ● 2016 vs 2015 
 ● 2017 vs 2016 
 ● 2018 vs 2017

## PREMIUM BY PRODUCT



● Commercial Motor 
 ● Consumer Motor 
 ● Small Business 
 ● Motor-Agri 
 ● Farm 
 ● Home

# Customer Segments



## AGRI

- Market leader
- Growth in premium
- Strong retention
- Best in market product



## COMMERCIAL

- Increased new business
- Strong retention
- Rounded offering



## CONSUMER

- Increasing urban footprint
- Dashcam discount
- Mobile responsive
- On-line claims



# Claims Environment



## Personal Injuries Commission Reports

- Soft tissue injury claim pay-outs 4 times higher than UK
- 80% of motor injury claims are soft tissue



## Injuries Board Trends

- Stability in award levels compared to 2017
- Acceptance rate of awards increasing



## Periodic Payment Orders (PPOs)

- Legislation now in place
- Uncertainty around impact



## Psychological Injury

- Increasing feature of soft tissue injury claims
- Excessive awards for post-traumatic stress



## Exaggerated Injury Claims

- More judges penalising claimants with lower than expected awards
- Still reluctance to dismiss claims outright



## Economic Growth

- Wage inflation and higher levels of employment impacting loss of earnings claims

# Insufficient progress - 2 years on from the Cost of Insurance Working Group

## 1. Strengthen the Injuries Board

- Enactment of PIAB (Amendment) Bill strengthening power to tackle non co-operation
- Implementation of pre-action protocols
- Appeals powers for rejected cases
- More efficient process to litigation

## 2. Personal Injuries Commission

- Implementation of standardised approach to assessing "whiplash" and soft tissue claims
- Implement internationally benchmarked awards
- Assess international best practice for delivering compensation including "care not cash"
- Establishment of accredited medical advisor panel

## 3. Improved Data Sharing

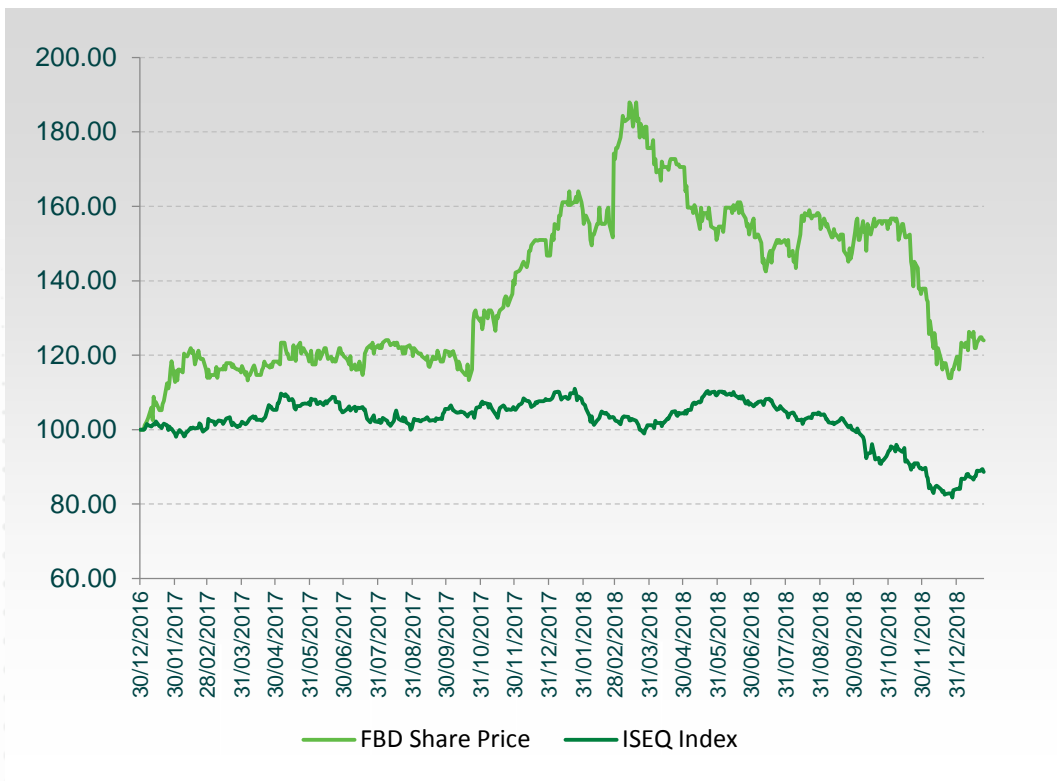
- Full implementation of Automatic Number Plate Recognition (ANPR)
- Establishment of integrated insurance fraud database
- Dedicated insurance fraud investigation unit within the Garda
- Regular and up to date reports on key aggregated metrics on claims costs and trends in the insurance market



**Fundamental Reform is required to reduce costs for customers**



# FBD Share Price Performance





# Glossary

<b>Acquisition</b>	The total of net commission and operating expenses incurred in the generation of net earned premium and often expressed as a percentage of net earned premium. The operating expenses are after the transfer of direct costs for claims settlement expenses which are included in net incurred claims expense.	<b>Excess of Loss Reinsurance</b>	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
<b>Best Estimate</b>	The actuary's expectation of future cost to settle all outstanding claims net of any margin for uncertainty, representing a 50% probability that the reserves are adequate to settle all future claims.	<b>Expense Ratio</b>	Underwriting and administrative expenses as a percentage of net earned premium.
<b>Casualty Insurance</b>	Insurance that is primarily concerned with the losses resulting from injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.	<b>General Insurance</b>	Generally used to describe non-life insurance business including property and casualty insurance.
<b>Catastrophe Reinsurance</b>	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for losses in related to an accumulation of claims resulting from a catastrophe event or series of events.	<b>Gross Claims Incurred</b>	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
<b>Claim</b>	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.	<b>Gross Earned Premium (GEP)</b>	The total premium on insurance earned by an insurer or reinsurer during a specified period on premiums underwritten in the current and previous underwriting years.
<b>Claims Incurred</b>	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.	<b>Gross Written Premium (GWP)</b>	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
<b>Claims Provision</b>	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin to cover possible fluctuation of the liability.	<b>Incurred but not Reported (IBNR)</b>	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
<b>Combined Operating Ratio</b>	The sum of the loss ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.	<b>Long-tail</b>	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.
<b>Deferred Acquisition Costs</b>	Acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date which are carried forward from one accounting period to subsequent accounting periods.	<b>Loss Ratio</b>	Net claims incurred as a percentage of net earned premium.
		<b>Margin for Uncertainty</b>	The margin held over and above the actuarial best estimate in order to provide greater certainty that claims reserves will be sufficient to settle all outstanding claims as they fall due.
		<b>Net Claims Incurred</b>	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
		<b>Net Claims Ratio</b>	Net claims incurred as a percentage of net earned premium.

# Glossary



<b>Net Earned Premium (NEP)</b>	Net written premium adjusted by the change in net unearned premium for a year.	<b>Reinsurance</b>	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
<b>Net Investment Income</b>	Gross investment income net of foreign exchange gains and losses and investment expenses.	<b>Reinsurer</b>	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer.
<b>Net Written Premium (NWP)</b>	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.	<b>Retention</b>	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
<b>Outstanding Claims Provision</b>	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.	<b>Underwriting</b>	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
<b>Personal Lines</b>	Insurance for individuals and families, such as private motor vehicle and homeowners insurance.	<b>Underwriting Expenses</b>	The aggregate of policy acquisition costs, and administrative, general and other expenses attributable to underwriting operations.
<b>Policyholders' Funds</b>	Those financial assets held to fund the insurance provisions of the Group.	<b>Underwriting Result</b>	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.
<b>Premium</b>	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.	<b>Underwriting Year</b>	The year in which the contract of insurance commenced or was underwritten.
<b>Short-tail</b>	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.	<b>Unearned Premium</b>	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
<b>Recoveries</b>	The amount of claims recovered from reinsurance, third parties or salvage.	<b>Written Premium</b>	Premiums written, whether or not earned, during a given period.