

# FBD Holdings plc

## 2019 Full Year Results

27<sup>th</sup> February 2020



### 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.





2019 FULL YEAR RESULTS

# Overview

→ Fiona Muldoon, CEO



# Key Highlights



## Full year profit of €112m before tax

- Unusually strong year
- Maintaining underwriting discipline
- Customer central to sales and claims service
- Improved products and pricing



## 72.3% Combined Operating Ratio

- Current year COR of 84% with exceptionally little weather (2018: 90%)
- Good claims settlement activity results in €40m prior year reserve releases (2018: €29m)



## Capital

- Net Asset Value 1,068c
- Return on Equity (ROE) of 30%
- Strong solvency position of 192% (unaudited)



## Dividend

- Proposed 2019 dividend of 100 cent per share (2018: 50 cent)
- 35% Pay-out Ratio (2018: 40%)



## GWP of €370m (2018: €372m)

- Strong competition in all customer segments with price pressure and increased use of discounts
- Satisfactory retention of existing customers
- New business levels up 13%



## Business Developments

- Improved Farm multi-peril product – increased Public Liability cover and new Environmental Liability cover as standard. First in Ireland
- New Small Business product: good ongoing success with shops, pubs and restaurants
- First to market with end to end digital customer journey for motor customers
- Partnership with An Post is performing well
- New partnerships such as Taxi-fair added



# Key components of 2019 result



Excellent pricing and underwriting discipline with current year COR of 84% (2018: 90%)



An exceptionally quiet year for weather compares to 5 year average of approx. €10m (net of reinsurance)



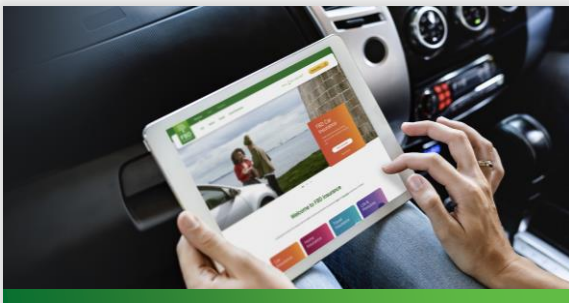
Favourable Prior Year Claims Development €40m compared to €28m in 2018



Strong Investment income of €18m (compared to €2m in 2018)



# Growing our business in a highly competitive market



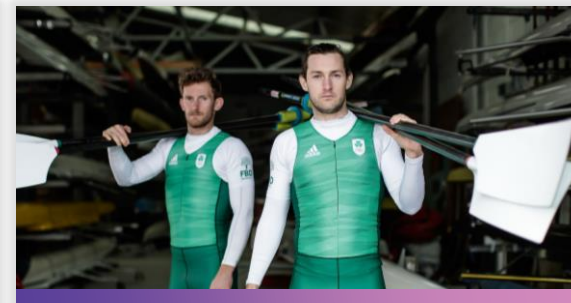
## Products

- Improved our **market leading farm product**
- **New Business Product** – good shop, pub and restaurant growth
- Enhanced **digital** offering for on-line motor customers



## Customers

- **2.2% reduction** in the average premium paid by our customers (across the book)
- Growth in An Post Channel bringing in **new motor customers**
- Sponsoring more than **100 community events**
- Developing our digital channels to streamline more **customer journeys** including claims
- FBD offers customers **real choice in how they shop** (34 branches; online; phone; broker or through our partners)



## Markets

- Exploring **opportunities** to grow including expanding our partnership approach
- Leverage sponsorship of Olympic '**Team Ireland**' in the run up to Tokyo 2020
- Strong focus on **Farm** and **Brand** opportunities and rewards





2019 FULL YEAR RESULTS

# Financial Performance

→ John O'Grady, CFO



# 2019 Full Year Results



	2019	2018
GWP	€370m	€372m
Profit before tax	€112m	€50m
EPS	281c	122c
NAV	1,068c	818c
ROE	30%	15%
	2019	2018
Loss ratio	46.4%	56.3%
Expense ratio	25.9%	24.9%
Combined Operating Ratio	72.3%	81.2%
Total investment return	2.7%	(0.5%)
▪ Income statement	1.7%	0.2%
▪ OCI	1.0%	(0.7%)





# 2019 Full Year Results



	2019 €'000s	2018 €'000s
Gross written premium	370,063	371,504
Net earned premium	337,553	337,903
Net claims incurred (incl. MIBI)	(156,625)	(190,431)
Other underwriting expenses	(87,259)	(84,054)
<b>Underwriting Result</b>	<b>93,669</b>	<b>63,418</b>
Investment income	17,892	2,482
Finance costs	(2,579)	(5,453)
Other	3,498	1,454
<b>Sub total</b>	<b>112,480</b>	<b>61,901</b>
Loss on purchase and cancellation of convertible debt	-	(11,836)
<b>Profit before tax</b>	<b>112,480</b>	<b>50,065</b>





# Analysis of Combined Operating Ratio

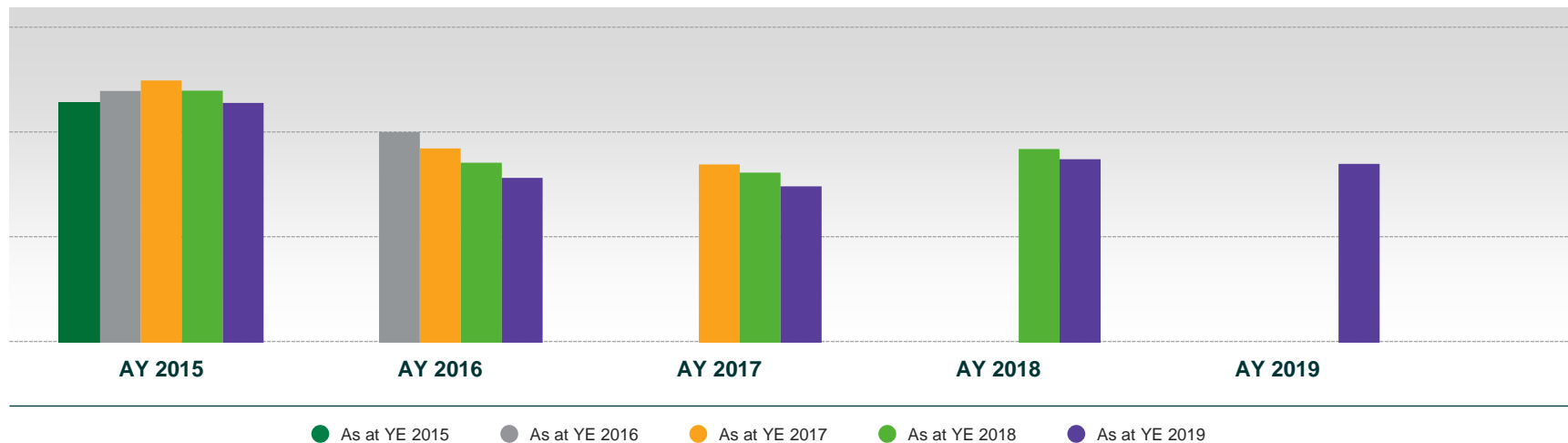


	2019		2018	
	€m	%	€m	%
<b>Current Year Combined Operating Ratio</b> (Excluding Cat weather)	<b>53.6</b>	<b>84.1%</b>	<b>41.3</b>	<b>87.7%</b>
Storm Emma	-	-	(6.6)	2.0%
<b>Current Year Combined Operating Ratio</b> (Including Cat weather)	<b>53.6</b>	<b>84.1%</b>	<b>34.7</b>	<b>89.7%</b>
Prior year reserve release	40.1	(11.8%)	26.9	(8.0%)
MIBI levy release and related obligations	-	-	1.8	(0.5%)
<b>Combined Operating Ratio as reported</b>	<b>93.7</b>	<b>72.3%</b>	<b>63.4</b>	<b>81.2%</b>





# Claims Reserve Development (Net Loss Ratios)



- **2019 prior year reserve releases of €40m** mainly from accident years 2016 & 2017 although some across other accident years (including €4m from 2014 & Prior)
- **Significant savings** on the settlement of **some large claims**
  - Accident years 2017 and 2018 display lower **large claims development** than historical observation
  - **2016 accident year** continues to be **more profitable** than previously expected
  - Claims **inflation has stabilised**



# Improved Investment returns in an on-going low interest rate environment

## Income Statement return: 1.7%

- New risk asset classes during the year
  - Emerging Market Equity, Senior Private Debt, and Infrastructure
  - Strong equity performance
  - Emerging Market Debt fund doing well
  - Bond and Government portfolios low risk but challenged by prevailing interest rate conditions

## OCI return: 1.0%

- Strong Mark-to-Market return on FBD's sovereign and corporate bond portfolios, as a result of
  - Falling interest rates &
  - Ongoing Eurozone monetary policy



# Investment Allocation

- €22m increase in risk assets continues our progression of Strategic Asset Allocation and is in-line with our strong solvency position

	31-Dec-19		31-Dec-18	
Group Investment assets	€m	%	€m	%
Deposits and cash	168	15%	157	15%
Corporate bonds	509	46%	498	47%
Government bonds	302	27%	297	28%
Equities & other risk assets	111	10%	79	8%
Investment property	19	2%	18	2%
<b>Total</b>	<b>1,109</b>	<b>100%</b>	<b>1,049</b>	<b>100%</b>

- Total return on portfolio of 2.7% reflects recovery in markets in 2019 after disappointing 2018 (2018: -0.5%)







2019 FULL YEAR RESULTS

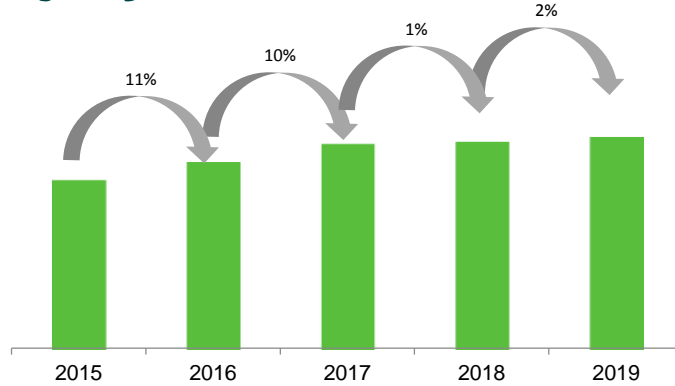
# Environment & summary

→ Fiona Muldoon, CEO

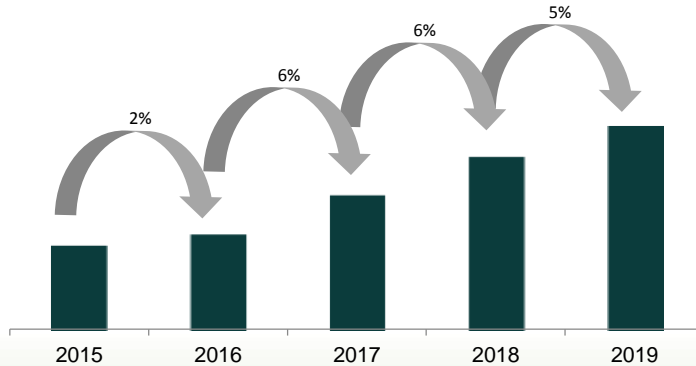




# Injury claims inflation appears to have stabilised



Average Cost of **all** Capped Injury Claims and Settlements



Average Cost of Capped Litigated Injury Claims



**Stabilisation in claims costs** after several years of inflation



**Average cost of all Injury settlements up 2% in 2019.** Average Property claims costs up 10%, inflation still evident in litigated claims



**Special damages and legal costs remain high**



We continue to **advocate for reform**. Some good outcomes in the **Court of Appeal** that influence behaviour in the lower courts. Some sensible outcomes on negligence versus personal responsibility.



We continue to **contest suspected fraudulent cases** and control the areas we can – continue to work on strengthening our technological, data analytics and fraud detection capabilities



# Slow progress in the claims environment – systemic reform still required to deliver cheaper insurance for all consumers



- Courts more willing to recognise that plaintiffs have some responsibility for their own personal safety
  - Supported by recent legislation to address the non-co-operation of claimants and reduce the allowable timeframe to notify the claim
  - Legislation passed to establish the Judicial Council and the Personal Injuries Guidelines Committee
- 
- Irish compensation levels remain too high for soft-tissue injuries (> 4 times UK's awards)
  - Negligence standards remain unreasonably high
  - Court of Appeal judgements not fully filtered down to Circuit and District Courts
- 
- Reductions in the level of awards for soft tissue injuries needed
  - Fast-tracking of rejected Injuries Board claims with a simplified process
  - Make gross exaggeration an offence to disincentivise “have-a-go” claimants
  - Establish and resource a Garda fraud investigation unit to fully enforce existing laws



# Dividend Recommendation

- Our Dividend Policy is based on a pay-out ratio. We target 20-50% of full year profits
- Strong profits in 2019
- Robust capital position
- Solvency Capital Coverage of 192% (unaudited) under standard formula, after allowing for proposed dividend
- Proposed dividend of 100 cent per share; pay-out ratio of 35%





# Summary



Exceptional **ROE of 30%**



Excellent Profit of **€112m** before tax



**84% Current year Combined Operating Ratio** is a strong indication of on-going underwriting discipline, quality risk selection and no weather



Proposed dividend of **100 cent per share**



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





# Our strategy delivers for shareholders





# 2020 Guidance



FBD does not guide on individual Income Statement line items



Premium growth to come from new customer numbers while maintaining underwriting discipline: easier said than done!



Continuing low interest rate environment challenges investment returns



**Current Year** Combined Operating Ratio in low 90's for 2020 is achievable (absent exceptional weather)







2019 FULL RESULTS

# Appendix

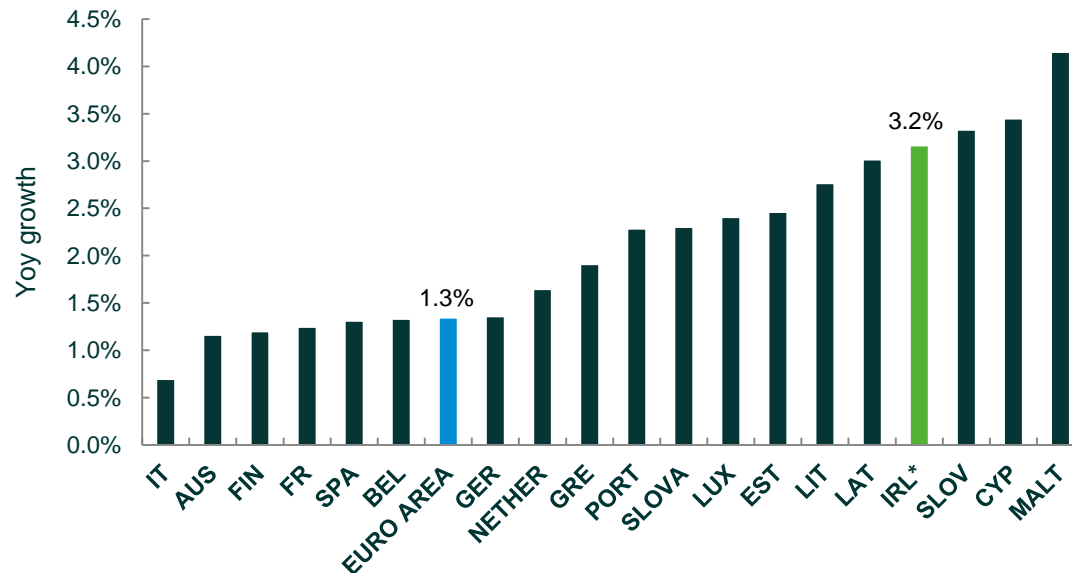




# Irish Environment



## Domestic demand 2021 forecasts



Source: AMECO, Goodbody Estimates | \*Core DD

GDP **growth is set to moderate** amid a weakening external environment, while underlying **economic activity is expected to remain robust**, driven by household consumption and investment in construction  
(European Commission statement – Nov 2019)

**Employment to rise by 1.7%:** Jobs growth is expected to remain robust in 2020 with **40,000 net job for Ireland projected**, a slight reduction on the 56,000 in 2019.  
(Accountancy Ireland Predictions – Jan 2020)

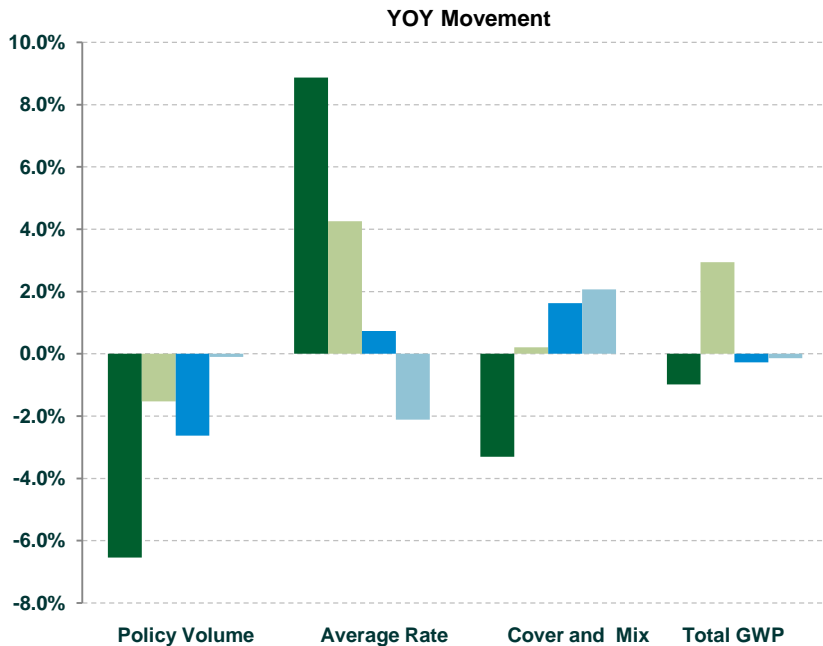
Teagasc estimates average farm income in Ireland **increased by an estimated 7% in 2019** but this comes off the back of a decrease of 21% in 2018. There are severe income variations across different farm enterprises with **beef, sheep and tillage** under significant income pressure.  
(Teagasc Outlook 2020)



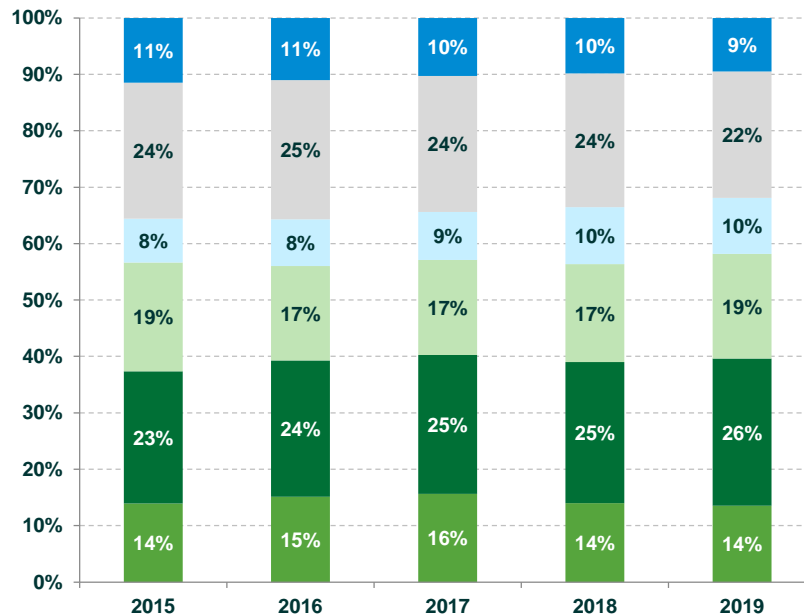
# Business Update



## Change in GWP (Direct & Indirect)



## Premium by Product

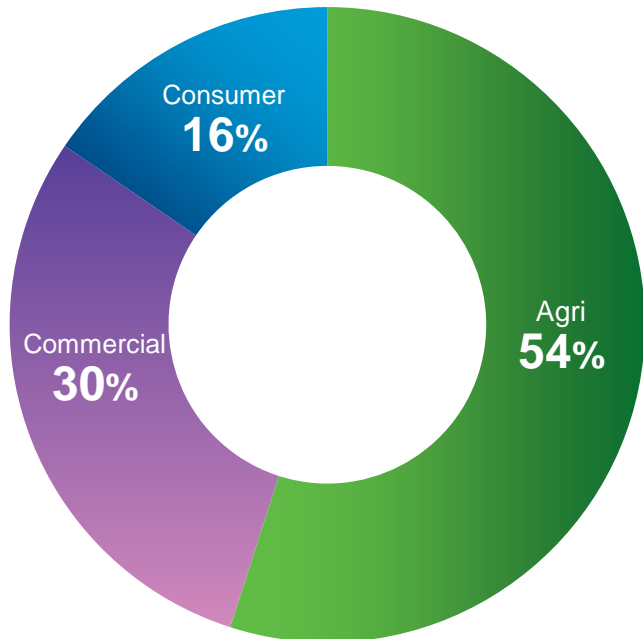


● 2016 v 2015 
 ● 2017 v 2016 
 ● 2018 v 2017 
 ● 2019 v 2018

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



# Customer Segments



## AGRI

- Best in class product
- Market leader
- Strong new business



## COMMERCIAL

- Increased year on year
- Strong retention
- New product launched in 2019



## CONSUMER

- Strong conversion rates
- Post insurance gaining momentum
- Future opportunities





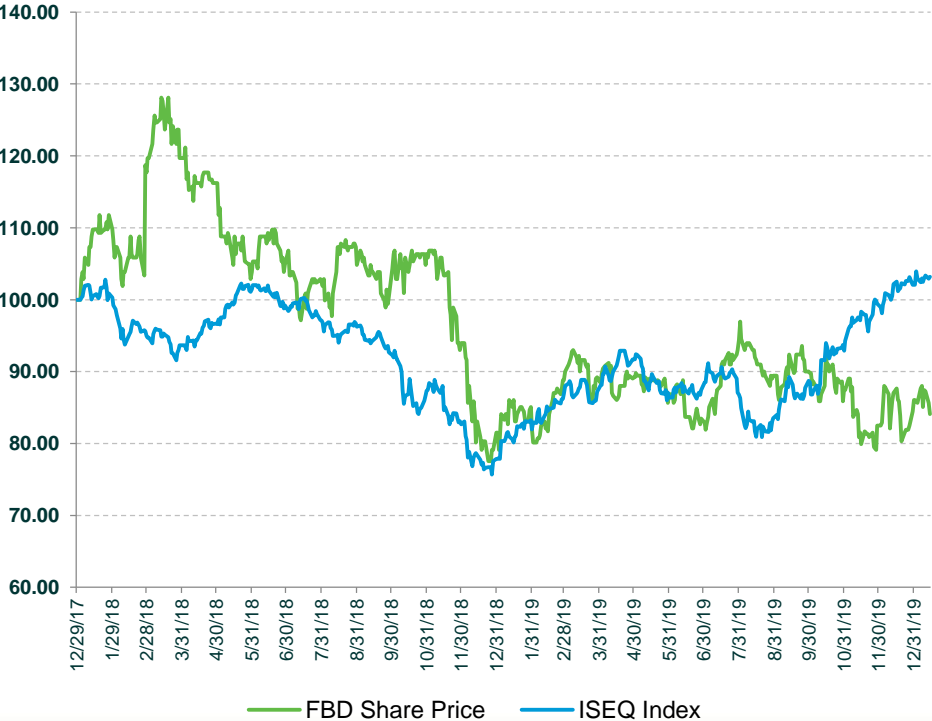
# 5 Year Prior Year Development on Best Estimate Reserves

(Strengthening) / Release	
Financial Year	€ 'm
2019	40
2018	29
2017	15
2016	4
2015	(69)





# 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>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>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>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>Claim</b>	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
<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>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>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>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>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>Expense Ratio</b>	Underwriting and administrative expenses as a percentage of net earned premium.
<b>General Insurance</b>	Generally used to describe non-life insurance business including property and casualty insurance.
<b>Gross Claims Incurred</b>	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
<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>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>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>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>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>Net Investment Income</b>	Gross investment income net of foreign exchange gains and losses and investment expenses.
<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>Outstanding Claims Provision</b>	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
<b>Personal Lines</b>	Insurance for individuals and families, such as private motor vehicle and homeowners insurance.
<b>Policyholders' Funds</b>	Those financial assets held to fund the insurance provisions of the Group.
<b>Premium</b>	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
<b>Short-tail</b>	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.
<b>Recoveries</b>	The amount of claims recovered from reinsurance, third parties or salvage.
<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>Reinsurer</b>	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer.
<b>Retention</b>	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
<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>Underwriting Expenses</b>	The aggregate of policy acquisition costs, and administrative, general and other expenses attributable to underwriting operations.
<b>Underwriting Result</b>	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.
<b>Underwriting Year</b>	The year in which the contract of insurance commenced or was underwritten.
<b>Unearned Premium</b>	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
<b>Written Premium</b>	Premiums written, whether or not earned, during a given period.