

# Protector Forsikring ASA

ABG SC's Nordic Insurance Trip 2021 – May 31<sup>st</sup>



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## Our DNA

### Vision

The Challenger

### Business Idea

This will happen through unique relationships, best in class decision-making and cost effective solutions

### Main targets

Cost and quality leadership

Profitable growth

Top 3

### Values

Credible

Innovative/Open

Bold

Committed



**Protector: a profitable growth story**

UK

Investments

Capital allocation and long-term targets

Q1 2021

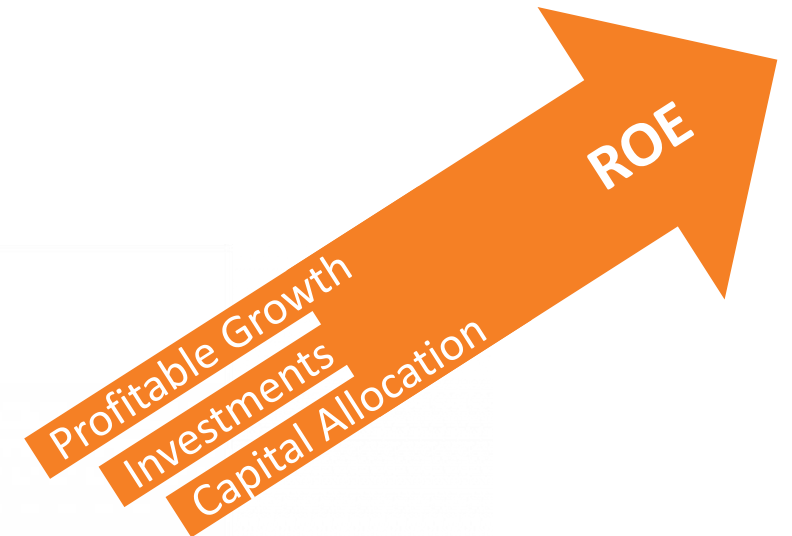
Summary



# Value creation in the long run

We have only just begun

- Cost leader in the world – not good enough
  - Average CR last 10 years at 91.6 %
  - Price increases still higher than claims inflation entering 2021, churn back to normal in Nordics
  - Growing organically from 0 to > 5.5 BNOK in premiums; building a significant float
  - UW discipline and Claims Handling are moments of truth
  - Investment is core and delivers better than benchmark HTD
  - It's also a story of capital consumption and risk
- 
- HTD ROE at 19%
  - HTD CAGR share price at 29.6%



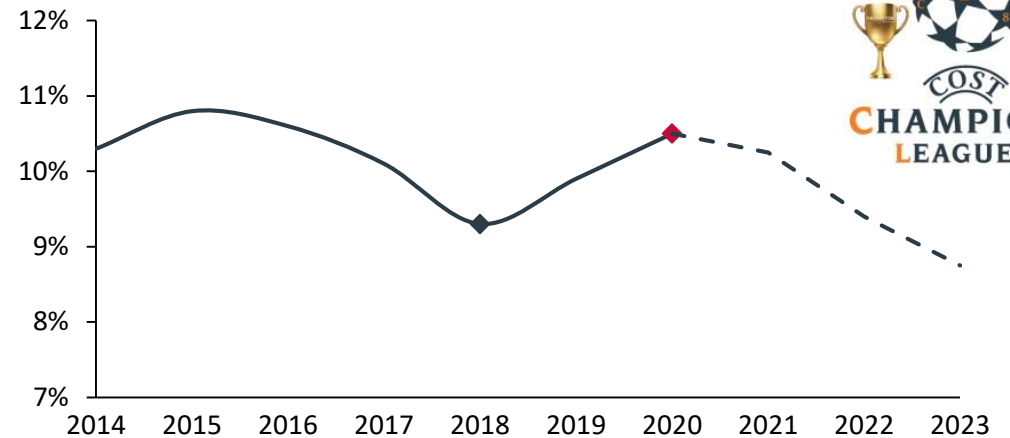
# Cost Leadership – World leader, but...

Not good enough – new target 2023

## Creating cost leadership

- Define strategy, design value chains and implement
- In-house IT with cost ratio of ≈ 1% vs 3.2% for industry (Gartner Inc.)
- The real cost “secret” is a mix of culture and IT
- Increased cost 2019-2020
  - Investing in UK
  - Increased client churn in the Nordics
  - Portfolio clean-up consume resources

## Cost the real way<sup>1</sup>



## Gross expense ratio

	2014	2015	2016	2017	2018	2019	2020
Protector Nordics (ex. COI)	6.4 %	7.3 %	6.0 %	7.3 %	7.6 %	7.7 %	9.6 %
Tryg Corporate	11.1 %	10.8 %	11.0 %	10.2 %	9.9 %	10.4 %	11.4 %
If Industrial <sup>2</sup>	16.1 %	17.3 %	17.6 %	17.1 %	16.0 %	14.6 %	na

<sup>1</sup> Gross cost incl. claims handling ex. broker commission costs w. normalized LBP

<sup>2</sup> Cost ratio excl. annual avg. claims handling cost for If

# Profitability challenged

2020 - A turning point, CR 2021 expected at 90-92%

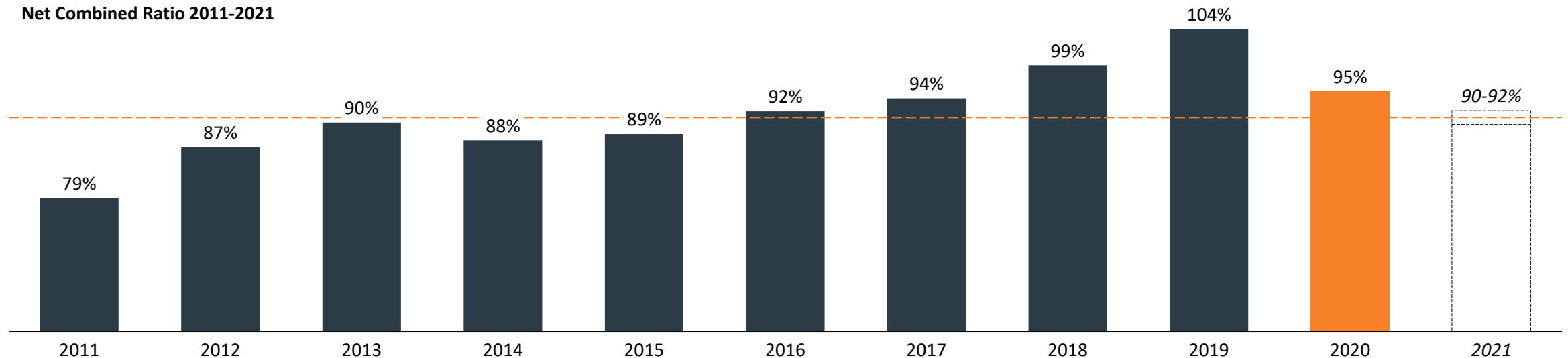
## Profitable 9 out the 10 last years

- Some challenges entering 2018
  - Poor UW discipline in Norway & Finland
  - Claims inflation motor higher than expected
  - Grenfell Tower and Grey Silverfish

## Profitability improvements

- Significant Nordic price increases
- Stronger UW discipline in some markets/segments
- Margin management and Capital allocation
  
- Exit COI market in Norway

Net Combined Ratio 2011-2021

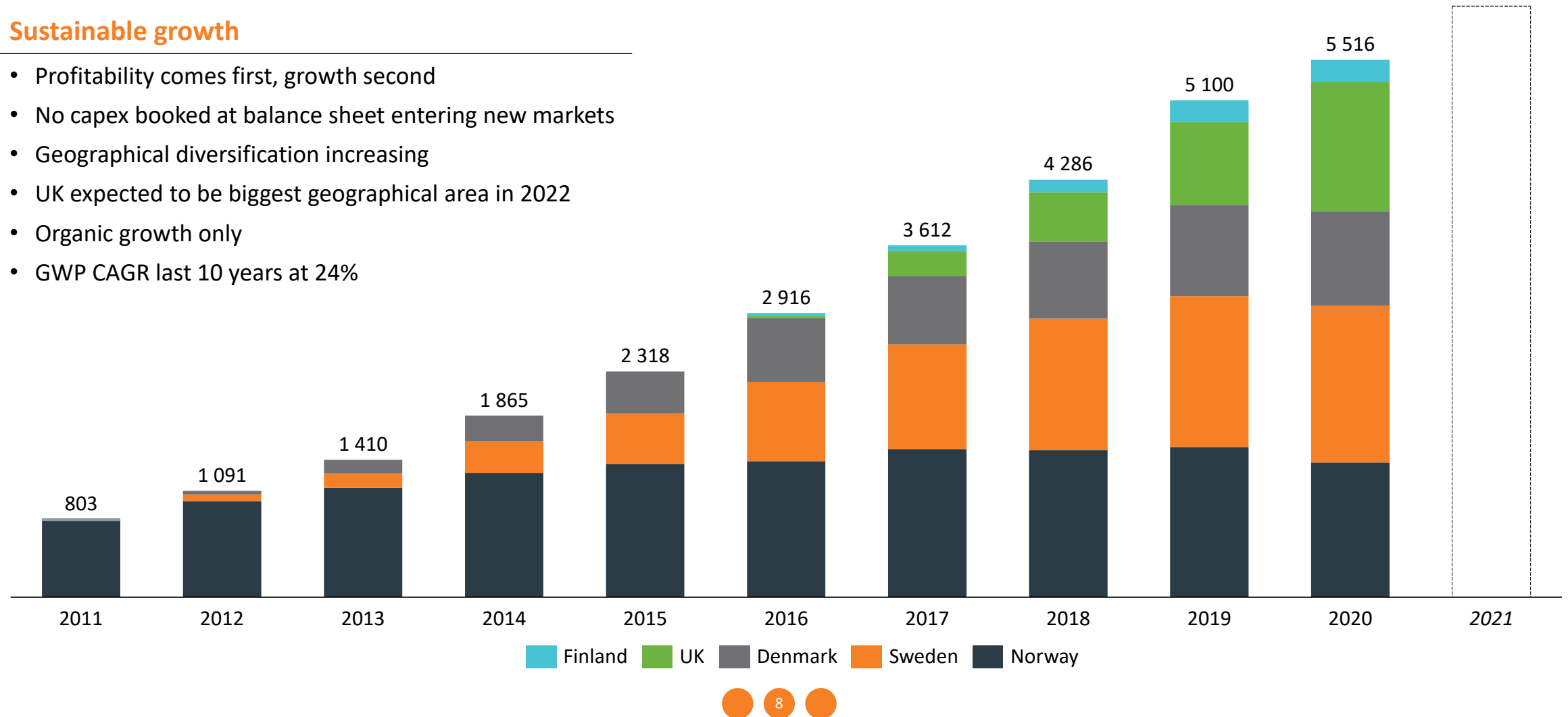


# Volume growth

17 % GWP CAGR last 5 years, 10% growth expected for 2021

## Sustainable growth

- Profitability comes first, growth second
- No capex booked at balance sheet entering new markets
- Geographical diversification increasing
- UK expected to be biggest geographical area in 2022
- Organic growth only
- GWP CAGR last 10 years at 24%





Protector: a profitable growth story

**UK**

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Capital allocation and long-term targets

Q1 2021

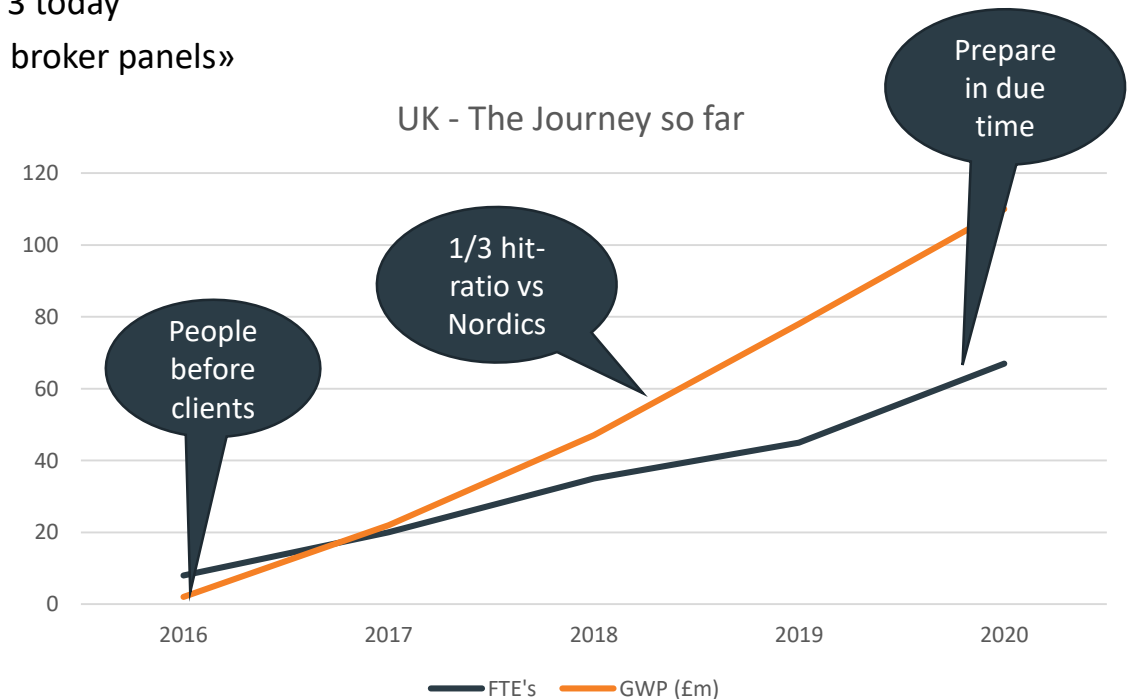
Summary



# UK Summary 2016-2020

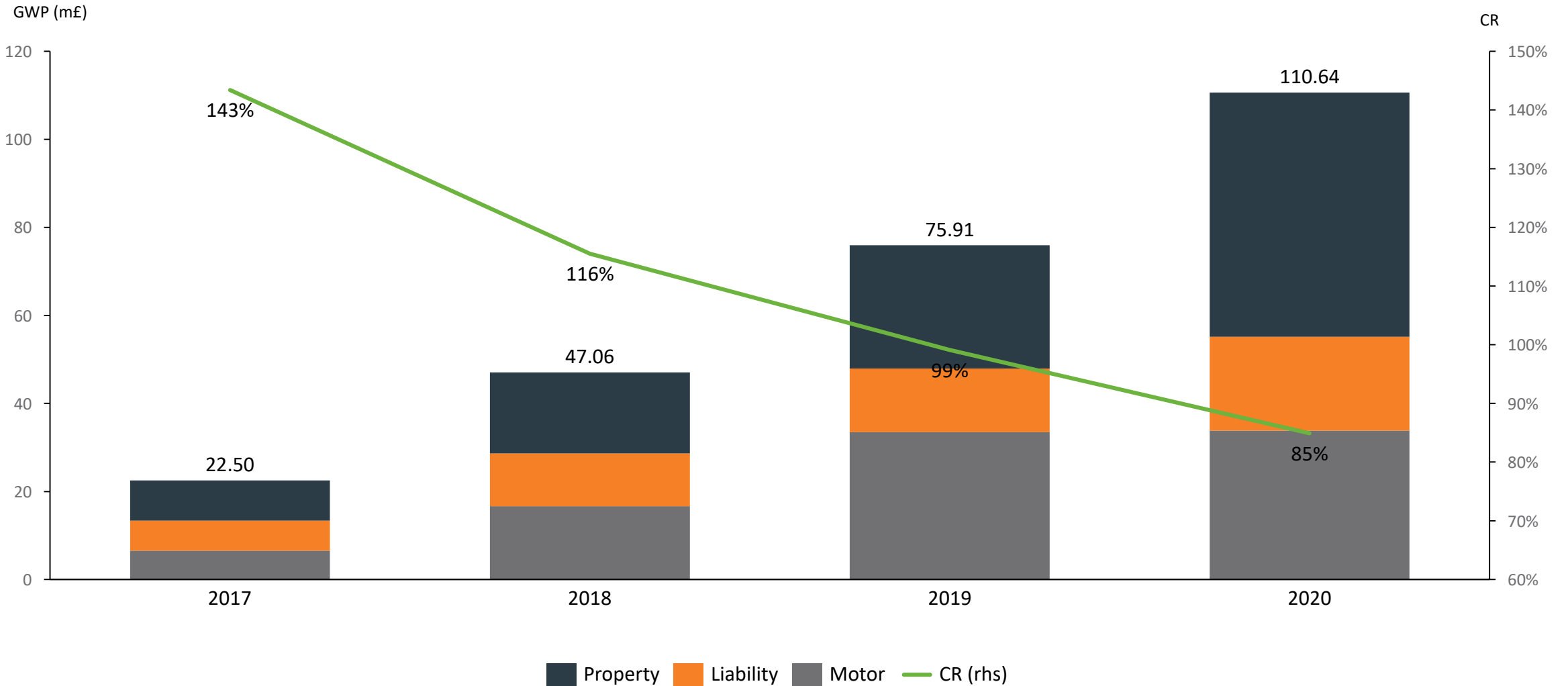
A disciplined Team Journey has just begun

- £10bn market in scope, £3bn market in focus, many years of growth ahead
- Three segments
  - Public: UW & cost advantage # 3 today
  - Housing: UW & cost advantage # 3 today
  - Commercial: Careful entry, one team «on 2, soon 3, broker panels»
- Profitable in 2019 and 2020
  - Profitable in year 4 and 5 (like in Sweden)
  - Some luck on large losses
  - Good underlying profitability
  - Improved Reinsurance terms
- Culture is key
  - Quality leader
  - Up-front investment in people for future



# Disciplined growth in a large market

61% avg. annual growth since 2017 with lots more potential



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Q1 2021

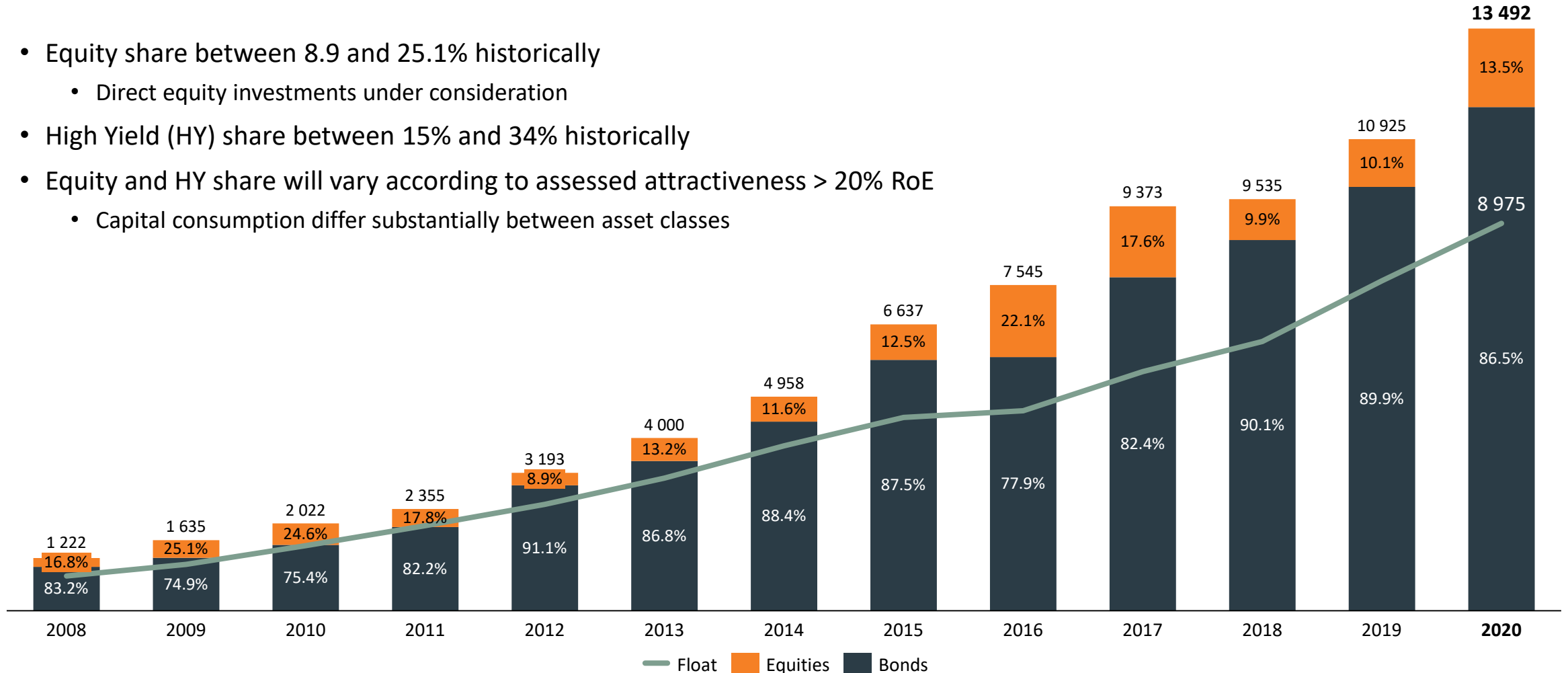
Summary



# Investment is core

CAGR AUM last 5 years of 15.2%

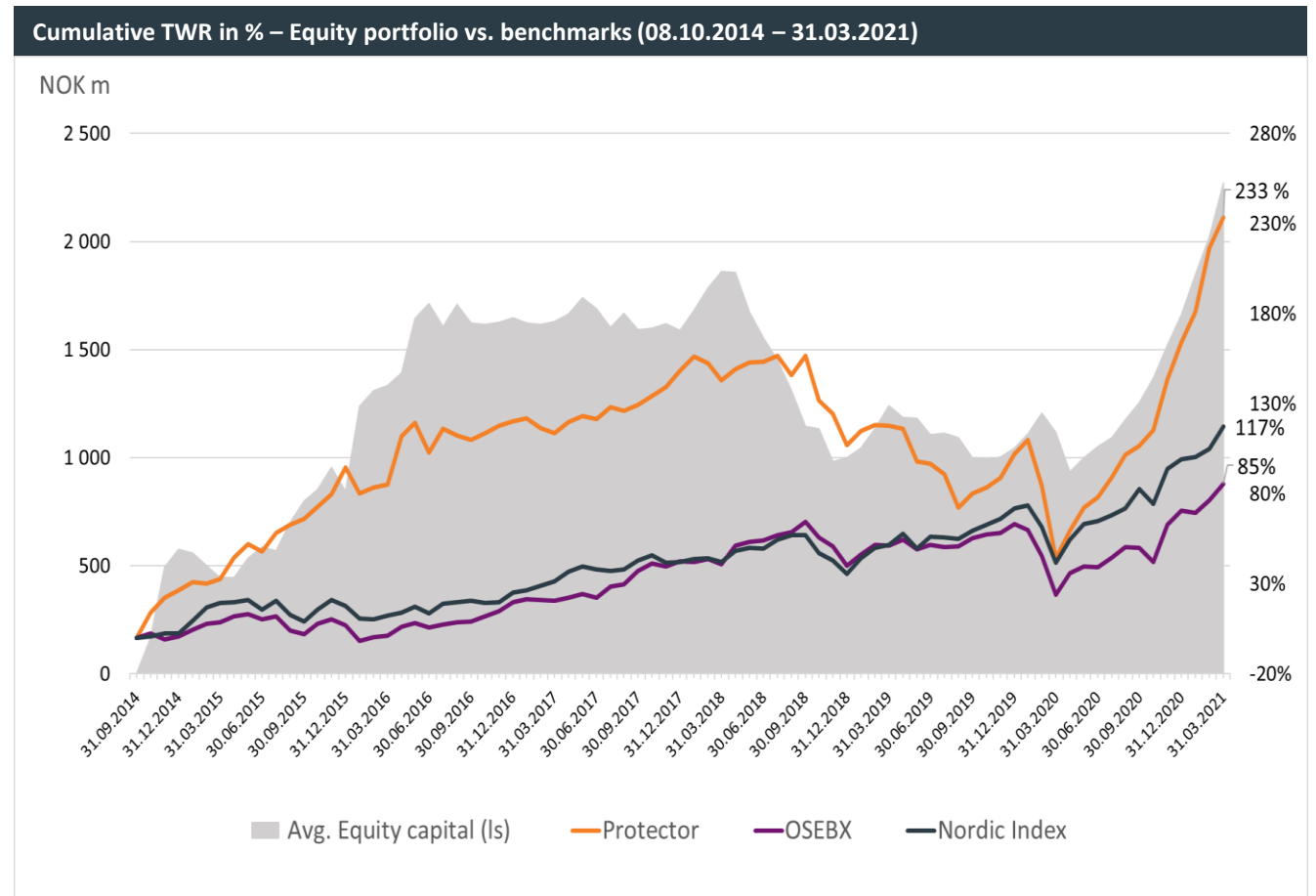
- Equity share between 8.9 and 25.1% historically
  - Direct equity investments under consideration
- High Yield (HY) share between 15% and 34% historically
- Equity and HY share will vary according to assessed attractiveness > 20% RoE
  - Capital consumption differ substantially between asset classes



# Equity portfolio statistics

## Good performance since inception in 2014

- Equity share of total portfolio varies depending on available investment opportunities reaching hurdle
- Discount to estimated intrinsic value 15% at Q1'21
- Concentrated portfolio where top 5 positions will normally be 30-50% of total
  - No travel-, oil- or oil service companies



# Bond portfolio statistics

Immaterial losses the last 5 years. Higher risk in 2020 and start of 2021

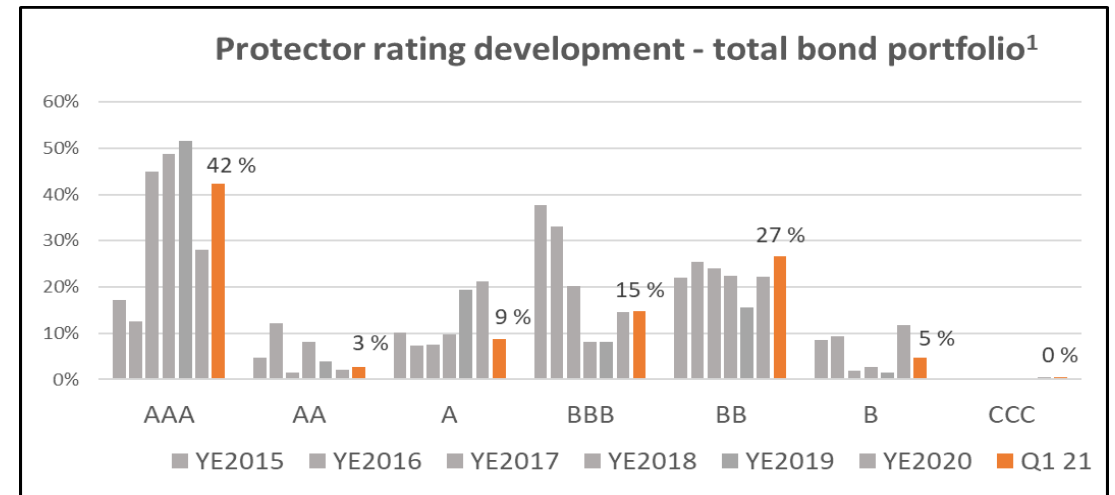
- Low losses, -0.11% or less, every year since insourcing in 2015
  - Higher risk in 2020 than avg. last 5 years with losses of -12m or -0.11%
    - A year with higher volatility and higher losses for the general market
- “Normalized” annual loss expectation through cycle, -0.2% to -0.5%
  - Expect losses to be “chunky” with low losses in most years
  - Actual losses of course dependent on risk taking
- Avg. A- rated portfolio and risk up compared to pre-Covid
  - High-yield portfolio of NOK 4bn
- Running yield at 2.0%, before cost of risk
- Strong returns historically and relative to capital consumption
  - Avg. annual return for high yield portfolio Q115-Q420 at 7.5%

Portfolio data	31.03.21	31.12.20	31.03.20
Size bond & cash eq. (MNOK) <sup>1</sup>	12 472	11 603	10 151
Avg. ref. rate (NIBOR, STIBOR, etc.)	0.1%	0.2%	0.5%
Avg. spread/risk premium (bps)	179	210	320
Yield	2.0%	2.3%	2.1%
Duration	0.4	0.4	0.4
Credit duration <sup>2</sup>	1.4	1.4	2.2
Avg. rating <sup>3</sup>	A-	A-	A

<sup>1</sup> Size excludes forward foreign currency contracts

<sup>2</sup> Avg. includes bank deposits

<sup>3</sup> Avg. based on official rating (>60%) and 'Protector rating' (<40%) & is based on linear rating (as usual). WARF methodology would give a somewhat lower IG-rating



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**Capital allocation and long-term targets**

Q1 2021

Summary

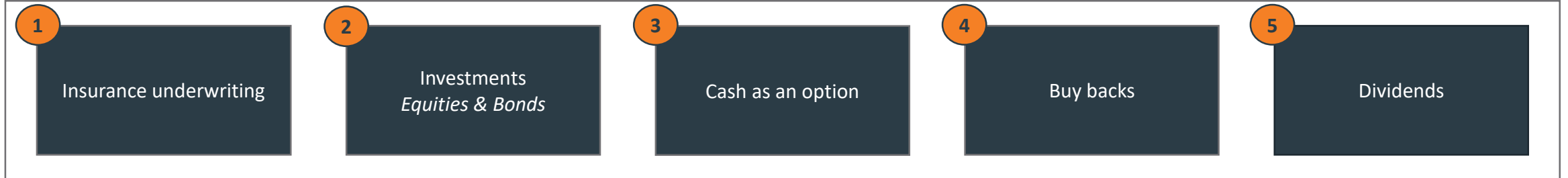




# Capital allocation – maximize shareholder return

Priority 1: Always profitable growth in insurance, if possible

Main capital allocation alternatives:

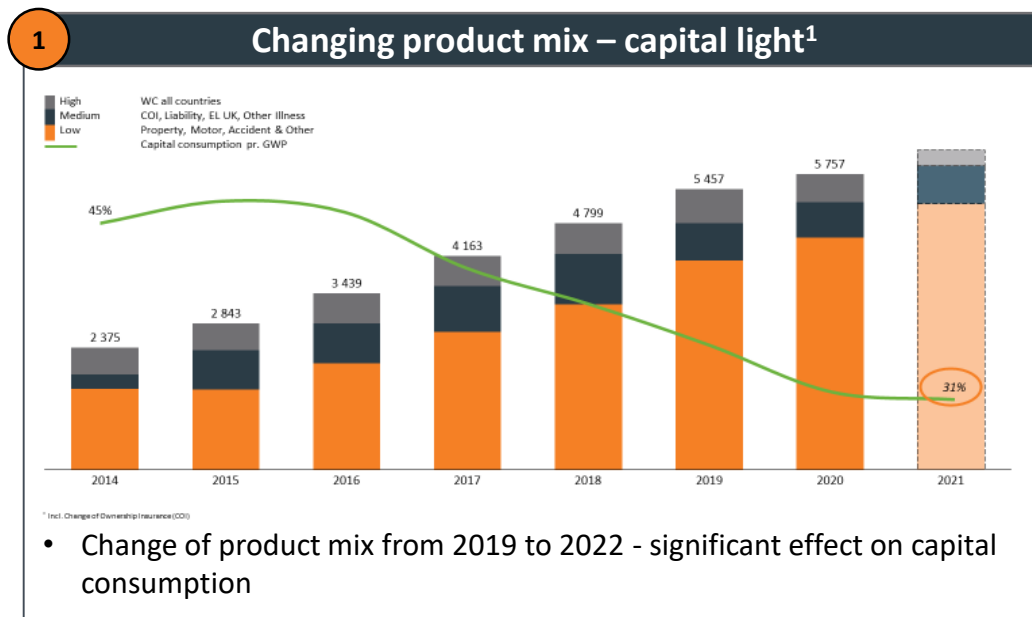


- 1 Allocation towards profitable growth is preferred; stay disciplined
- 2 Challenging to allocate capital in times of low credit spreads and all-time-high stock markets
- 3 How much capital should be kept for future financial market crises?
- 4 An attractive alternative if meeting hurdle; will normally have to bid with significant premium
- 5 Capital base discipline; flexible distribution of excess capital if allocation cannot be made elsewhere

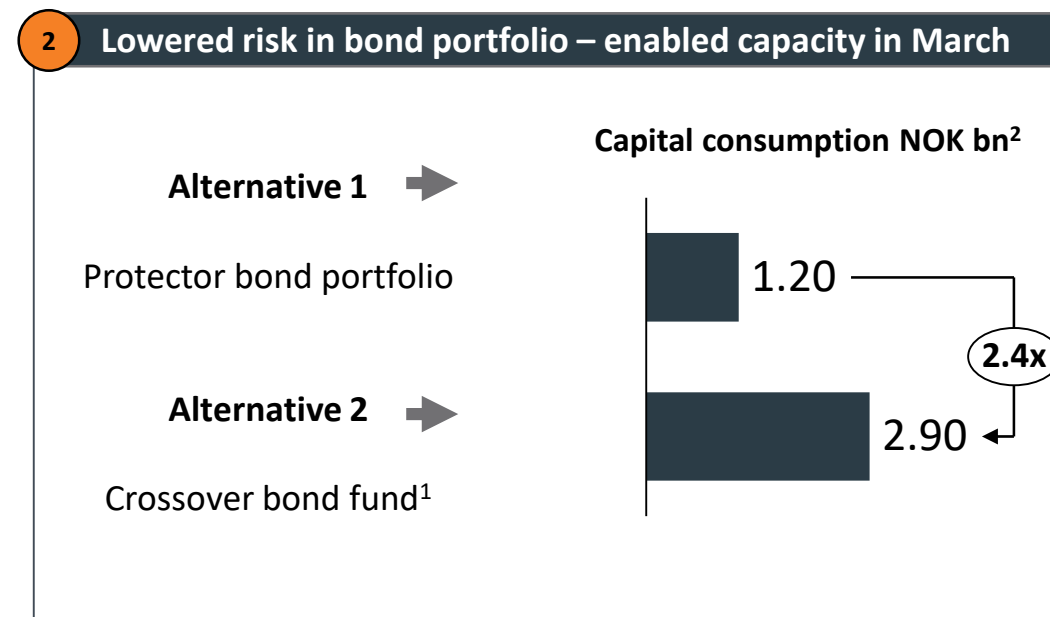
Capital allocation approach	<ul style="list-style-type: none"><li>• Determine minimum hurdle rate (RoE&gt;20%)</li><li>• Calculate returns for all internal and external allocation alternatives available, by return and risk</li><li>• Deploy capital in the most attractive alternatives above hurdle.</li><li>• Release underperforming capital (COI, Price increases, WC Denmark and Norway as example)</li></ul>
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# Capital allocation alternatives – what have we done?

## Maximizing shareholder return



Differing values from P&Ls due to exchange rates applied



Differing values from P&Ls due to exchange rates applied

### 3 Buy backs

- Historical buy backs – in all 26.2m shares

Buy backs	2007	2008	2009	2010	2018
# shares	2 718 645	14 762 900	3 348 920	955 782	4 404 622
Average price	10.91	7.22	6.00	9.67	57.50

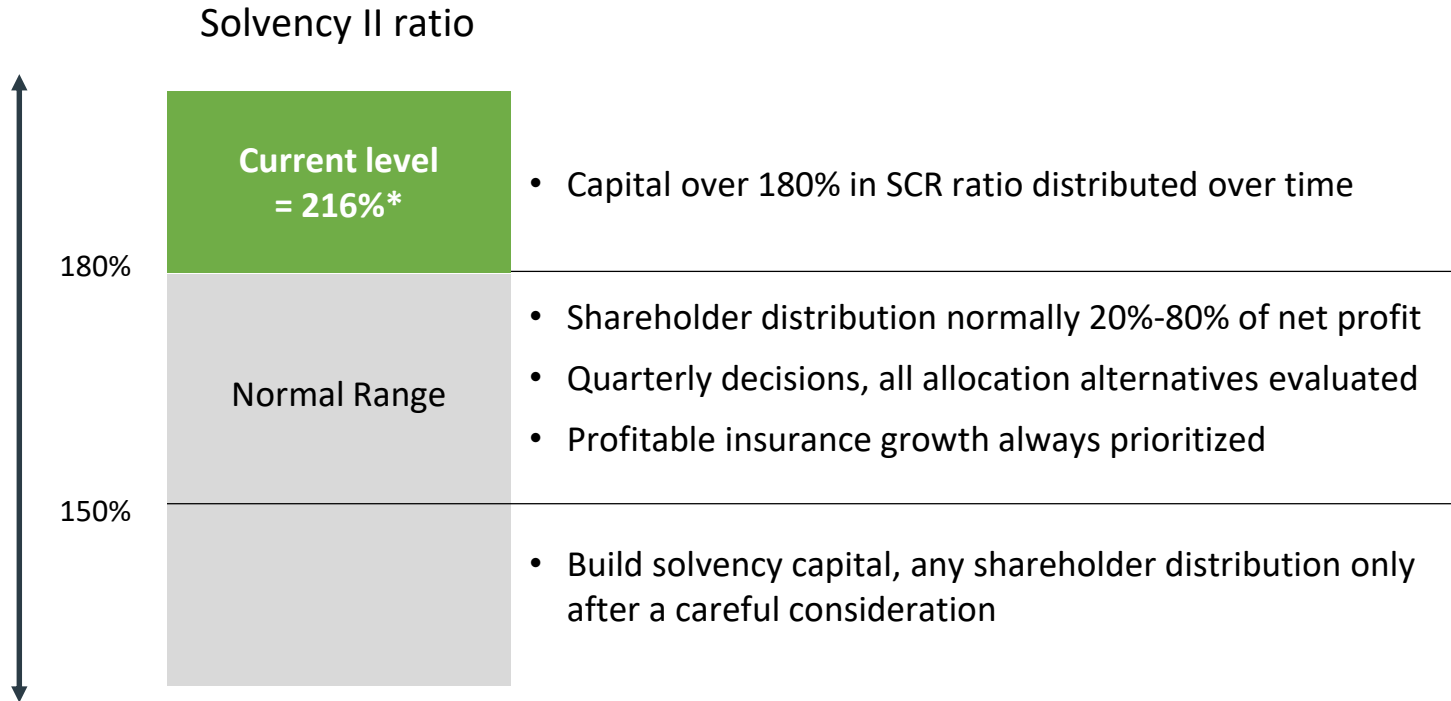
### 4 Dividends

- Dividends of 14.45 per share paid out pre 2020

Dividends	2009	2010	2012	2013	2014	2015	2016	2017	2020
Per share	1.25	1.50	1.20	1.75	2.00	2.25	2.25	2.25	4.67

# Dividend policy

Flexible Shareholder distribution policy – profitable growth in insurance always priority nr 1



- Dividend of MNOK 246.9 (NOK 3.00 per share) for 2020
- Special dividend of MNOK 137.5 (NOK 1.67 per share) paid out following Q1 2021.
- Quarterly assessment going forward

\*As of 31.03.2021, post dividend

# Long-term financial objectives – 3Y perspective

Profitable growth with a Combined Ratio at 90-92%

Long-term financial objectives		Guiding 2021
Net Combined Ratio:	90-92%	90-92%
Return on Equity (ROE):	> 20%	
Gross Written Premium (GWP) growth:	Disciplined	10%
Solvency II Capital Ratio (SCR):	> 150%	

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Capital allocation and long-term targets

**Q1 2021**

Summary



# Result highlight Q1 2021

Combined ratio at 91.1% | Investment return at 4% | EPS at NOK 7

- Net combined ratio at 91.1% (98.3% in Q1 '20)
- GWP growth at 1.8% (1.5% in local currencies)
  - Exit Workers' Compensation business Denmark and Norway, MNOK 188 (6.5 %)
- Investment return of MNOK 581, or 4%
- Profit after tax of MNOK 573 (MNOK -385) – EPS at NOK 7
- Special dividend of NOK 1.67 per share
- Solvency Capital Ratio at 216% post special dividend

# Protector Combined Ratio

Net CR at 91.1%

Q1 2021

	Norway		Sweden		Denmark		UK		Finland		Protector	
	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020
Gross premium written	856	820	895	789	727	813	238	192	164	213	2 880	2 828
Gross premium earned	343	367	434	397	207	234	334	227	70	68	1 388	1 293
Net premium earned	305	328	373	349	180	204	254	181	62	61	1 175	1 122
Gross claims ratio	68.1 %	94.3 %	61.1 %	80.3 %	103.6 %	105.0 %	75.2 %	65.7 %	101.6 %	67.6 %	74.6 %	85.5 %
Gross cost ratio	8.9 %	7.6 %	14.7 %	12.1 %	10.4 %	5.7 %	18.5 %	12.4 %	8.2 %	3.9 %	13.2 %	9.3 %
<b>Gross combined ratio</b>	<b>77.0 %</b>	<b>101.9 %</b>	<b>75.7 %</b>	<b>92.3 %</b>	<b>114.0 %</b>	<b>110.8 %</b>	<b>93.7 %</b>	<b>78.1 %</b>	<b>109.8 %</b>	<b>71.5 %</b>	<b>87.8 %</b>	<b>94.8 %</b>
Net claims ratio	83.7 %	96.1 %	65.1 %	78.8 %	84.1 %	112.7 %	83.2 %	80.1 %	98.3 %	69.0 %	78.5 %	89.7 %
Net cost ratio	10.5 %	4.8 %	13.3 %	11.3 %	6.5 %	8.3 %	19.0 %	13.5 %	9.2 %	1.0 %	12.6 %	8.6 %
<b>Net combined ratio</b>	<b>94.2 %</b>	<b>100.8 %</b>	<b>78.4 %</b>	<b>90.1 %</b>	<b>90.6 %</b>	<b>121.0 %</b>	<b>102.2 %</b>	<b>93.5 %</b>	<b>107.5 %</b>	<b>70.0 %</b>	<b>91.1 %</b>	<b>98.3 %</b>

- Quarterly volatility on country level must be expected.
- Gross and net CR in Norway and Denmark deviate significantly due to reserve changes following the Darag-deal.
- Cost is significantly elevated in Q1 due to (i) 'long-term bonus plan' linked to share price development (3%-points), and (ii) growth stemming from UK/Sweden, where commissions are driving cost ratio upward (neutral from a competitive point of view).

# Status vs. 2021 guiding

Profitability and solidity ahead of guiding, growth lagging behind

	Guiding 2021	Result Q1	Status
Net Combined Ratio:	90-92%	91.1%	Ahead
Return on Equity (ROE):	>20%	17.5%*	Ahead
Gross Written Premium (GWP) growth:	10% (LCY)	1.5% (LCY)	Behind
Solvency II Capital Ratio (SCR):	> 150%	216%	Very solid

\* Not annualized



## Our DNA

### Vision

The Challenger

### Business Idea

This will happen through unique relationships, best in class decision-making and cost effective solutions

### Main targets

Cost and quality leadership

Profitable growth

Top 3

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Q1 2021

**Summary**



# Succession is about 'The Team'

Involve management in a transparent structured transfer of roles and responsibilities



Henrik Høye CEO from 15 June, Hans Didring nr. 2 – One Team approach is what matters

# Summary of today – we have only just begun

**The profitable growth story will continue**

- Growing organically from 0 to > 5.5 BNOK in premiums
- Average CR last 10 years at 91.6%
- HTD ROE at 19%
- HTD CAGR share price at 29.6%
- Guiding disciplined growth and CR 90-92% long-term
- Very strong Q1 investment return, and CR ahead of target



Thank you for listening

