

UK Motor Insurance

Sector in 2021: Admiral shines on growth

We've analysed disclosures of 16 motor insurers for 2021 and see c.30% of the market by premium already close to or above a 100% combined ratio, despite favourable frequency. This should bolster market discipline; we expect motor insurance pricing to be up double digits in 2H22, and reiterate OW on Admiral and Sabre.

We have spent time analysing the regulatory and IFRS reporting published by UK motor insurers for 2021, looking at 16 different players, both on consolidated and entity levels. Our proprietary analysis shows large motor insurers may have shown a combined ratio of c. 92% (up 6pp YoY), compared to 103% on average in 2010-2019, while sector top line has come down by 5%. In fact, the 2H21 combined ratio is already likely to have pushed 100%, considering the recent uplift in frequency and the timing of price decreases in 2020-21. We believe the sector combined ratio is likely to return above 100% this year (EY forecast: 112%) as claims inflation runs at a double-digit rate now, dragging the pricing up in 2H 2022. However, over a 12 month perspective we expect combined ratios to stabilize, while players such as Admiral and Sabre should outperform the market on the top line - see our recent upgrade (UK Motor Insurance: UPDATE: Now for the volume growth: Prefer ADM (u/g to OW) over DLG).

Growth is hard to come by - Admiral continues to outperform: In a year of shrinking top line (premiums down 4.8%, according to ABI) only a handful of companies were able to grow premiums, most notably Admiral (+2.3%), Aviva (+1.5%) and smaller players NFU Mutual (+6.1%) and AA (+7.8%). Most others (Hastings, esure, AXA, Allianz/LV, RSA) have reduced premiums. In 2022 we expect Admiral and Sabre to grow ahead of the market; Admiral may be able to increase turnover by 11% due to a combination of pricing, market share gain and mix shift, while Sabre should grow 18% due to new distribution agreements in bike and taxi.

FIGURE 1. UK motor insurance market - gross written premiums

Company	Source	Motor premiums (£m)			Growth	
		2019	2020	2021	2020	2021
Admiral	IFRS	2,159	2,193	2,244	1.6%	2.3%
Aviva*	SFCR	1,676	1,652	1,677	-1.5%	1.5%

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CORE UK Mid & Small Cap

DLGD.L/DLG LN	EQUAL WEIGHT
European Insurance	NEUTRAL
Price Target	GBp 323
Price (26-Apr-22)	GBp 257
Potential Upside/Downside	+25.7%

SBRE.L/SBRE LN	OVERWEIGHT
European Insurance	NEUTRAL
Price Target	GBp 267
Price (26-Apr-22)	GBp 216
Potential Upside/Downside	+23.4%

ADML.L/ADM LN	OVERWEIGHT
European Insurance	NEUTRAL
Price Target	GBp 3050
Price (26-Apr-22)	GBp 2514
Potential Upside/Downside	+21.3%

European Insurance

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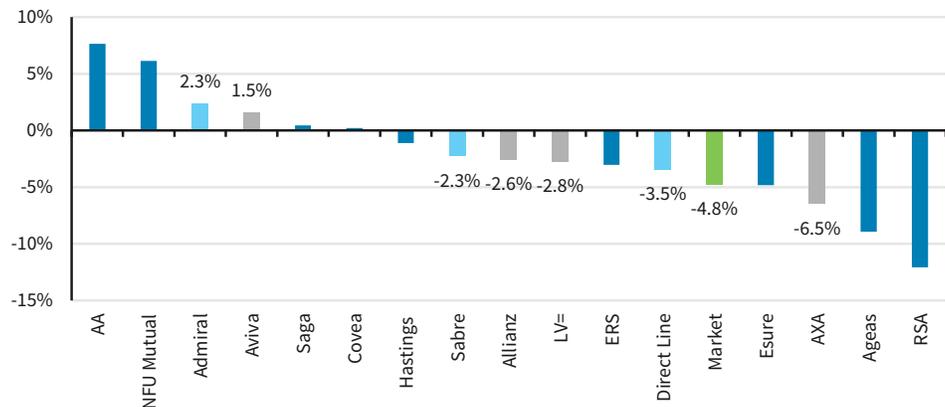
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Company	Source	Motor premiums (£m)			Growth	
		2019	2020	2021	2020	2021
Direct Line	IFRS	1,652	1,617	1,561	-2.1%	-3.5%
Hastings	IFRS	952	980	969	2.9%	-1.1%
AXA	SFCR	1,068	1,035	969	-3.1%	-6.5%
LV=	SFCR	1,273	958	932	NM	-2.8%
Esure	IFRS	736	737	702	0.1%	-4.8%
Ageas	IFRS	778	743	676	-4.5%	-8.9%
RSA	SFCR	823	752	661	-8.7%	-12.1%
NFU Mutual	SFCR	576	590	626	2.3%	6.1%
Allianz	SFCR	600	558	544	-7.0%	-2.6%
Covea	SFCR	416	331	332	-20.4%	0.2%
ERS	IFRS	360	329	319	-8.6%	-3.0%
Saga	IFRS	224	205	206	-8.7%	0.4%
Sabre	IFRS	197	173	169	-12.1%	-2.3%
AA	IFRS	90	131	141	45.6%	7.6%
ABI premiums		12,953	12,775	12,168	-1.4%	-4.8%

Sum of individual companies is larger than market total reported by ABI. Zurich not included as UK-specific data is not available, otherwise likely a top-10 player. * Aviva includes c. €0.2bn of Irish business
Source: Company data, Barclays Research

FIGURE 2. 2021 premium growth in motor insurance



Based on data from Figure 1. Light blue denotes listed motor insurers, grey denotes UK subsidiaries of other covered insurers.

Source: Barclays Research

Over a quarter of the market is making an underwriting loss in motor: While the pressure on pricing (+5%) from claims inflation (8-10%) seems obvious, the market is still riding the coattails of strong 2020-21 underwriting years, and may be able to sustain competition for a while longer. However, several underwriters that together make up over 30% of premiums are already operating close to or above 100% level, according to 2021 accounts - most notably AXA (100.7%), esure (97.9%), RSA (108.5%), NFU Mutual (134%). All four of the above command market shares over 5%. In our view, as the pressure continues to build in the motor market, this group of insurers is more likely to be less competitive, and support the price hardening later in 2022.

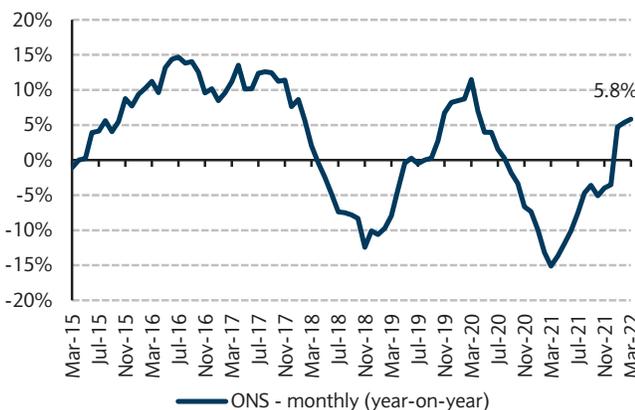
FIGURE 3. UK motor insurance market - loss ratio and combined ratio

Company	Source	Loss ratio			Combined operating ratio			COR change	
		2019	2020	2021	2019	2020	2021	2020	2021
Admiral*	IFRS	63.3%	51.9%	55.4%	79.8%	69.0%	74.7%	-10.8%	5.7%
Aviva	SFCR	73.9%	63.3%	65.7%	98.1%	89.2%	91.0%	-8.9%	1.8%
Direct Line	IFRS	69.2%	59.8%	64.3%	94.8%	87.7%	92.4%	-7.0%	4.7%
Hastings	IFRS	82.6%	76.5%	62.2%	98.0%	87.3%	80.3%	-10.7%	-7.0%
AXA	SFCR	74.2%	59.7%	68.7%	104.9%	91.4%	100.7%	-13.5%	9.4%
LV=	SFCR	73.1%	56.9%	66.1%	104.3%	85.6%	93.8%	-18.7%	8.2%
esure	IFRS	82.2%	72.4%	73.1%	105.8%	92.7%	97.9%	-13.1%	5.2%
Ageas	IFRS	29.7%	46.3%	63.8%	87.4%	86.2%	88.6%	-1.2%	2.4%
RSA	SFCR	71.8%	56.1%	73.1%	111.0%	98.0%	108.5%	-12.9%	10.4%
NFU Mutual	SFCR	78.7%	75.9%	93.5%	100.1%	96.6%	134.4%	-3.5%	37.8%
Allianz	SFCR		53.1%	62.1%		83.8%	93.4%		9.6%
Covea	SFCR	83.8%	62.3%	66.6%	112.4%	99.1%	103.3%	-13.3%	4.2%
ERS	IFRS				99.7%	91.9%	98.0%	-7.8%	6.1%
Saga	IFRS				103.4%	91.4%	96.3%	-12.0%	4.9%
Sabre	IFRS	51.5%	48.6%	51.0%	73.4%	75.3%	79.4%	1.9%	4.1%
Market (EY)					100.8%	90.3%	~97%		
Market (Barclays)					96.7%	86.2%	92.3%	-10.5%	6.1%

* Admiral - UK motor ex. commutations. SFCR data may be distorted by internal reinsurance (particularly for Aviva, AXA, Allianz, LV=)
 Source: Company data, Barclays Research

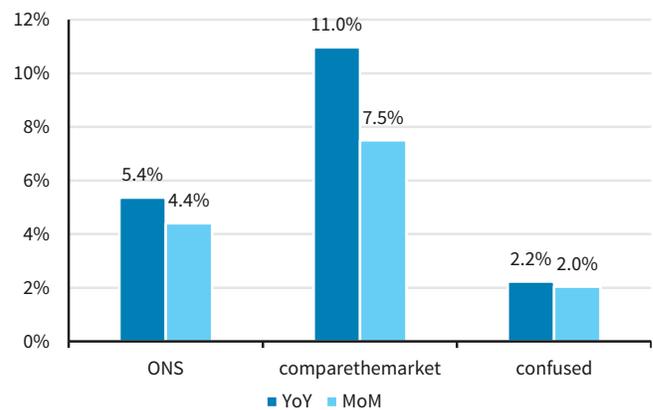
Pricing needs to go higher to avoid losses: So far in 2022 motor insurance prices have returned to growth - ONS index shows a 5.8% increase in March 2022, while several 1Q22 prints have ranged from +2.2%YoY (confused.com) to +11% (comparethemarket.com). However, due to the time it would take to earn the new business written in 1Q22, we expect a drag on the stock of premiums in 1H 2022; ABI index may only show 1-2% growth in 1Q 2022 and 3-5% in 2Q 2022.

FIGURE 4. ONS monthly motor insurance pricing



Source: ONS, Bloomberg, Barclays Research

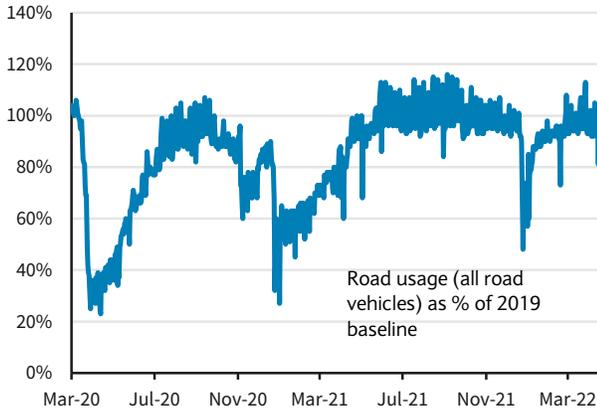
FIGURE 5. 1Q 2022 motor insurance price prints



Source: ONS, comparethemarket.com, confused.com

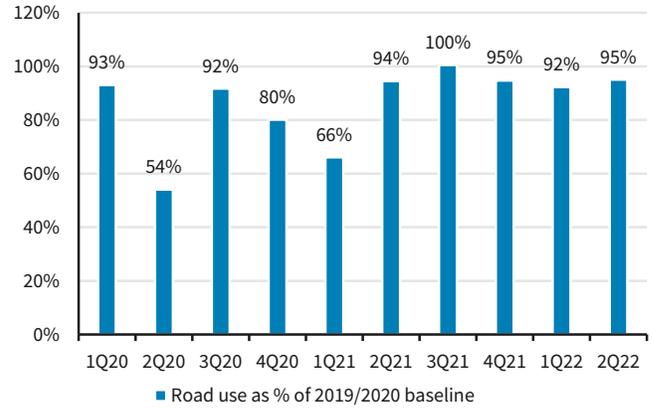
Frequency likely to remain below pre-COVID levels: As we have extensively discussed in our previous note ([UK Motor Insurance: UPDATE: Now for the volume growth: Prefer ADM \(u/g to OW\) over DLG](#)), the 'new normal' of road usage could bring a potential 5-10ppt benefit to claims frequency. Road usage remains below 2019 level, down 5% in April thus far vs pre-lockdown levels (-8% in 1Q22).

FIGURE 6. Daily road usage



Source: UK Department for Transport, Barclays Research

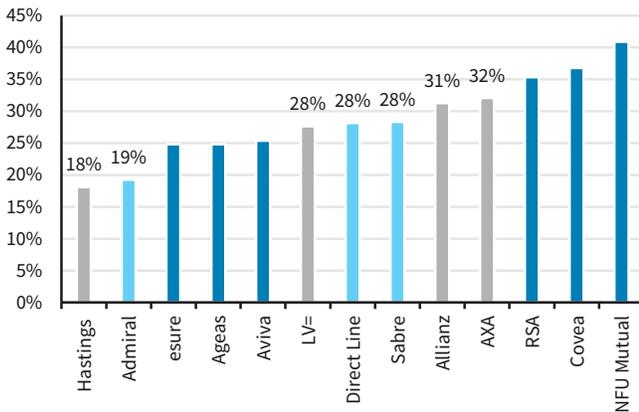
FIGURE 7. Quarterly road usage



Source: UK Department for Transport, Barclays Research

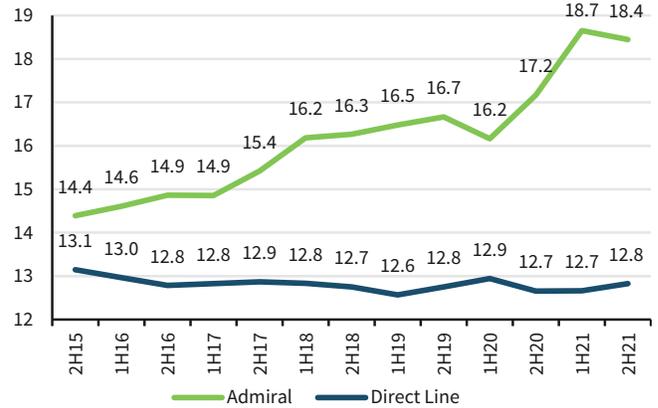
Low cost players may be long term winners in a high retention world: The introduction of the FCA reform that prohibits insurers from charging a higher price at renewal vs a like-for-like new customer will likely lead to less reckless competition in the market, in our view. This will result from consumers having fewer incentives to switch while insurers may be less reluctant to use low first year pricing as a hook with the end goal of increasing rates at later renewals. Confused.com have already indicated that 58% of customers have received a lower price at 1Q 2022 renewals, according to their survey. We believe over the long term it makes low cost players (Admiral, Hastings - owned by Sampo) more competitive, as they should be able to price lower than peers and remain profitable over the customer lifetime. Admiral in particular has shown the ability to take share both during periods of rising prices and price softness (as in 2020-21), and we expect more customer pull in 2022-23.

FIGURE 8. Expense ratio - UK motor



Based on data from Figure 3 (combined ratio less loss ratio)
Source: Barclays Research

FIGURE 9. Market shares - UK motor



Source: Barclays Research

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Primary Stocks (Ticker, Date, Price)

Admiral Group plc (ADML.L, 26-Apr-2022, GBp 2514), Overweight/Neutral, CD/J/K/N

Direct Line Insurance Group (DLGD.L, 26-Apr-2022, GBp 257), Equal Weight/Neutral, CD/D/J/K/L/M/N

Sabre Insurance Group Plc (SBRE.L, 26-Apr-2022, GBp 216), Overweight/Neutral, J/L/Q

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ASR Nederland NV (ASRNL.AS)	AVIVA plc (AV.L)	AXA (AXAF.PA)
Beazley (BEZG.L)	Direct Line Insurance Group (DLGD.L)	Generali (GASI.MI)
Gjensidige Forsikring ASA (GJFS.OL)	Hannover Re (HNRGn.DE)	Hiscox Ltd. (HSX.L)
Just Group (JUSTJ.L)	Lancashire Holdings (LRE.L)	Legal & General (LGEN.L)
M&G plc (MNG.L)	Mapfre (MAP.MC)	Munich RE (MUVGn.DE)
NN (NN.AS)	Old Mutual Ltd (OMU.L)	Phoenix (PHNX.L)
Prudential Plc (PRU.L)	Randall & Quilter (RQIH.L)	Sabre Insurance Group Plc (SBRE.L)
Sampo (SAMPO.HE)	Sanlam Ltd (SLMJ.J)	SCOR (SCOR.PA)
St. James's Place (SJP.L)	Swiss Re (SRENH.S)	Topdanmark (TOP.CO)
Tryg (TRYG.CO)	Unipol (UNPI.MI)	Zurich Insurance Group AG (ZURN.S)

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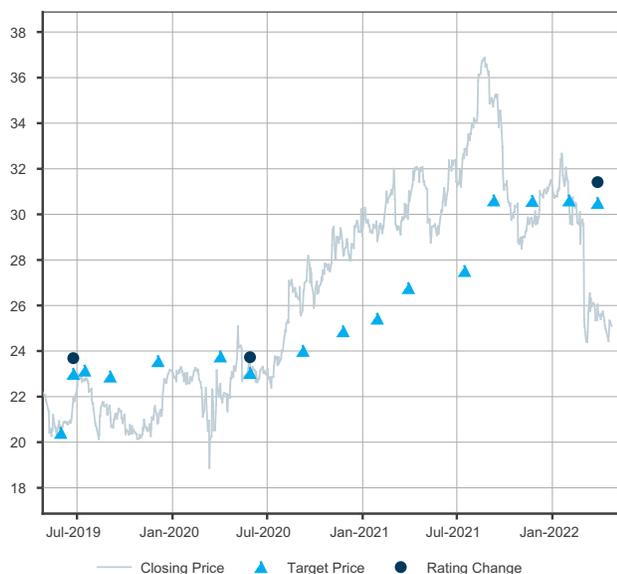
Stock Rating: **OVERWEIGHT**

Industry View: **NEUTRAL**

GBP 2514 (26-Apr-2022)

Rating and Price Target Chart - GBP (as of 26-Apr-2022)

Currency=GBP



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
29-Mar-2022	25.35	Overweight	30.50
02-Feb-2022	31.44	Overweight	30.61
23-Nov-2021	29.80	Overweight	30.59
10-Sep-2021	34.97	Overweight	30.61
16-Jul-2021	32.87	Overweight	27.51
30-Mar-2021	30.39	Overweight	26.76
29-Jan-2021	28.82	Overweight	25.42
24-Nov-2020	28.35	Overweight	24.87
08-Sep-2020	26.04	Overweight	24.01
29-May-2020	23.33	Equal Weight	23.04
02-Apr-2020	22.55	Overweight	23.76
04-Dec-2019	20.85	Overweight	23.56
03-Sep-2019	21.29	Overweight	22.88
16-Jul-2019	22.78	Overweight	23.14
24-Jun-2019	21.91	Overweight	23.00
31-May-2019	20.62	Overweight	20.41

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Source: Bloomberg, Barclays Research

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Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The downside risks to our Overweight rating include a stronger claims inflation, i.e. driven by a combination of general inflation with supply chain shortages that would make cars more expensive to repair. Regulatory changes (i.e. an unfavorable Ogden rate change) may also be a negative factor. Inability to grow top line will likely be a negative factor for the earnings multiple - while Admiral is currently trading in line with the past 3-5 years forward P/E, it still assumes the company takes on market share and grows operating profit.

Direct Line Insurance Group (DLG LN / DLGD.L)

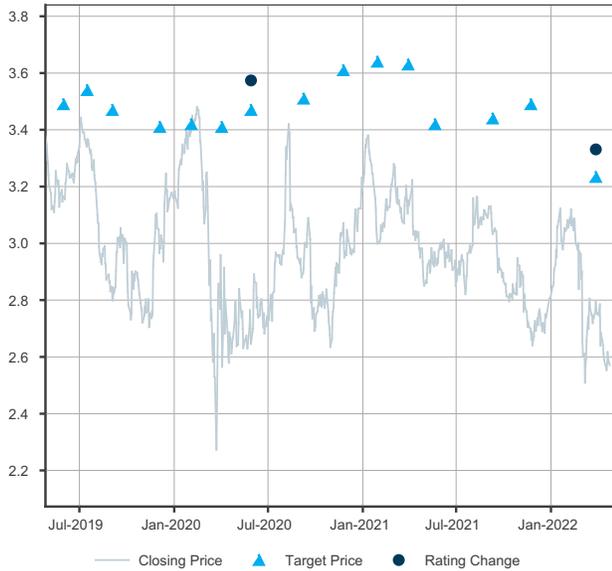
Stock Rating: **EQUAL WEIGHT**

Industry View: **NEUTRAL**

GBP 257 (26-Apr-2022)

Rating and Price Target Chart - GBP (as of 26-Apr-2022)

Currency=GBP



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
29-Mar-2022	2.74	Equal Weight	3.23
23-Nov-2021	2.71	Equal Weight	3.49
10-Sep-2021	3.03	Equal Weight	3.44
21-May-2021	2.95	Equal Weight	3.42
30-Mar-2021	3.15	Equal Weight	3.63
29-Jan-2021	3.00	Equal Weight	3.64
24-Nov-2020	3.07	Equal Weight	3.61
08-Sep-2020	2.91	Equal Weight	3.51
29-May-2020	2.65	Overweight	3.47
02-Apr-2020	2.72	Equal Weight	3.41
03-Feb-2020	3.40	Equal Weight	3.42
04-Dec-2019	2.98	Equal Weight	3.41
03-Sep-2019	2.81	Equal Weight	3.47
16-Jul-2019	3.36	Equal Weight	3.54
31-May-2019	3.17	Equal Weight	3.49

On 26-Apr-2019, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 3.62.

Source: Bloomberg, Barclays Research

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Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Direct Line's main business line is motor insurance, and soft price environment coupled with higher than expected increase in claims inflation after the end of the lockdown may negatively affect earnings. Regulatory intervention may be another risk, either on the pricing side or on commercial claims for business interruption. Finally, DLG is exposed to financial market volatility and its investment result may come down as a result of asset impairments or lower interest rates. On the other hand, a stronger delivery on growth and operating expense savings may result in earnings upgrades and upside risks to our recommendation.

Sabre Insurance Group Plc (SBRE LN / SBRE.L)

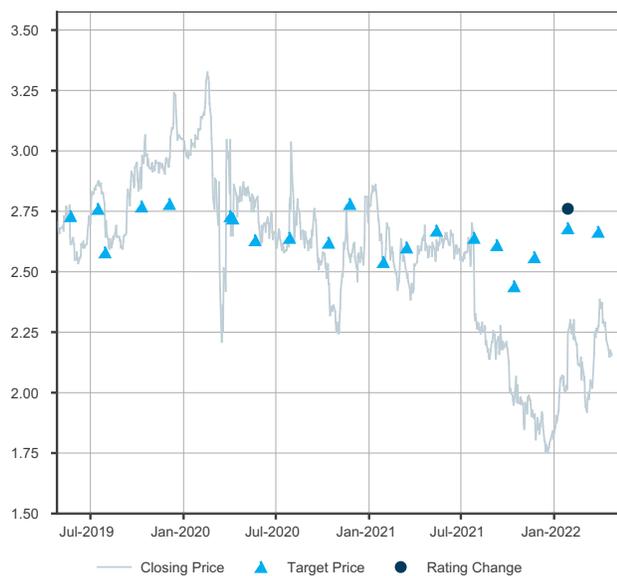
Stock Rating: **OVERWEIGHT**

Industry View: **NEUTRAL**

GBP 216 (26-Apr-2022)

Rating and Price Target Chart - GBP (as of 26-Apr-2022)

Currency=GBP



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
29-Mar-2022	2.27		2.67
28-Jan-2022	2.25	Overweight	2.68
23-Nov-2021	1.93		2.56
14-Oct-2021	1.96		2.44
10-Sep-2021	2.21		2.61
27-Jul-2021	2.54		2.64
14-May-2021	2.63		2.67
16-Mar-2021	2.50		2.60
29-Jan-2021	2.54		2.54
24-Nov-2020	2.57		2.78
13-Oct-2020	2.45		2.62
28-Jul-2020	2.78		2.64
21-May-2020	2.77		2.63
07-Apr-2020	2.65		2.72
02-Apr-2020	3.05		2.73
04-Dec-2019	2.97		2.78
10-Oct-2019	2.88		2.77
30-Jul-2019	2.70		2.58
16-Jul-2019	2.87		2.76
23-May-2019	2.62		2.73

On 26-Apr-2019, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 2.96.

Source: Bloomberg, Barclays Research

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Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Sabre is leveraged to the UK Motor pricing cycle, and any setbacks in pricing and/or claims inflation would lead to both lower underwriting margins and lower top-line growth, hence impacting earnings and dividends. The top line headwind has been particularly pronounced since the IPO, and that is what the company is addressing with new distribution agreements on motorbike and taxi. Sabre also has a relatively high excess reinsurance coverage (of £1m) relative to its annual pre-tax earnings of c£60m, and therefore a handful of large claims (which can be volatile) could impact earnings in any particular period.

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