AozoraStep

Exit Sabre Insurance: Broad market selloff and competition risks

Company:	Sabre Insurance (SBRE LN)	**Market Cap:**	£329mm
Industry:	Motor insurance	**Solvency ratio:**	195%
Country:	UK	**Revenue:**	£250mm
Date:	3rd April 2025	**Net Income:**	£30mm (12%)*
Dividend:	6%	**Free cash flow:**	£30mm (12%)*
Entry:	£329mm	**Exit:**	£329mm (0%)

*estimated 2024 figures

Why exit Sabre Insurance?

- Tariffs are much higher than anticipated, which could lead to a general market selloff
- Competition in motor insurance remains high, with quotes continuing to drop faster than inflation
- The higher competition could be a result of the FCA investigating whether motor insurance firms are overcharging their customers, especially with premium financing

General market selloff

Whilst the tariffs could lead to cars being exported to other countries than the U.S., hence leading to lower prices, benefitting Sabre Insurance and the general UK motor insurance industry, initial news suggest that car manufacturers, like Stellantis, are halting production entirely in Mexico and Canada[1]. The retaliatory tariffs overall were much higher than I anticipated, hence suggesting that we could end up in Smooth-Hawley Act scenario, where global trade comes to a halt, leading to higher unemployment and an economic depression. This would also lead to lower vehicle sales in the UK, which in turn would lead to insurance companies fighting over a smaller cake of customers. Despite a very attractive valuation, it felt prudent to sell the position due to retaliatory tariffs from the nations affected and more tariffs to come on products that were excluded. The environment to be invested in equities is therefore not ideal and only companies that directly benefit to a very large degree from these tariffs should be invested in.

[1] https://www.cnbc.com/2025/04/03/stellantis-idles-plants-in-mexico-and-canada-due-to-tariffs.html

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Higher competition in motor insurance

To test motor insurance pricing live is quite easy by getting a quote from some of the price comparison websites. What I've seen has surprised me. When I entered the position in February 2025, my personal car insurance dropped by over 23% compared to when I renewed last year in September. This price drop was large, but also expected, given that prices overshot and used vehicle prices were coming down. However, when I refreshed the pricing in March, prices were down another 9%. Meanwhile, a 15% tariff increase in whiplash injuries was announced to come into effect from 31st May 2025, affecting all policies that have an expiry date after 31st May[2]. Sabre Insurance believes that the market is underpricing at the moment. However, given that the insurance written earlier in 2024 was close to its peak, profits are likely to remain at least stable in the near term.

Regulatory headwinds

Whilst the Supreme Court ruling on fees that banks paid to used car dealers is ongoing, there is a risk that it will spread to brokerage fees as well. If such judgement was taken (feels very unlikely to me), it could impact the insurance industry as well. In addition, the FCA continues to investigate the issue of premium financing. Although Sabre Insurance is only mildly impacted by a negative outcome of this investigation, it generally puts pressure on the industry to price motor insurance aggressively and without excessive interest rates on monthly financing. Overall, the higher competition and regulatory headwinds do not justify to sell Sabre Insurance, in my opinion. The trade war and resulting de-globalisation, on the other hand, can put pressure on valuations in general, which led me to exit the position.

[2] https://hansard.parliament.uk/commons/2025-04-02/debates/1228ACE4-02F2-4750-893C-C725BF796993/WhiplashInjuryCompensation

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