Q3 2018 Earnings Call

Company Participants

- Paul Robert Geddes, CEO & Executive Director
- Penelope Jane James, CFO & Executive Director

Other Participants

- Andrew John Crean, Managing Partner, Insurance
- Andrew Sinclair, VP
- Dominic Alexander O'Mahony, Research Analyst
- Edward Morris, Equity Analyst
- Greig N. Paterson, MD, SVP and U.K. Analyst
- James Austin Shuck, Director
- Jonathan Peter Phillip Urwin, Director and Equity Research Insurance Analyst
- Sami Taipalus, Research Analyst
- Thomas Seidl, Senior Analyst

Presentation

Operator

Hello. Welcome to the Q3 '18 Direct Line Group Trading Update Call. My name is Molly. And I'll be your coordinator for today's event. (Operator Instructions)

I will now hand you over to your host, CEO, Paul Geddes, to begin today's conference. Thank you.

Paul Robert Geddes {BIO 2474781 <GO>}

Thank you. Good morning, everybody. Welcome to our Q3 update. As usual, I'm joined by Penny James and other members of my management team. Hopefully you've had a chance to read our trading update and have your questions ready.

But first, let me run you through the highlights. We delivered another robust trading performance in Q3 as markets continued to be competitive. We believe our performance reflects the value of our strong brands, propositions and customer relationships. Motor and Home own brands performed well, both growing in-force policies. Our investments in direct Commercial and Rescue helped them also to grow in-force policies by 7% and 11%, respectively. We're also pleased with the strategic progress we've made in the quarter. And we're on track to begin the rollout of our new personal lines IT systems next year. Overall, our strong trading performance means that we are reiterating our full year and medium-term combined operating ratio target of between 93% and 95%, assuming normal annual weather and no change to the Ogden discount rate.

So now for a few words on each of the business areas, starting with Motor. And at the end of Q3, our view of the year's current year loss ratio hasn't changed materially from how we described it at the half year. At the half year, we said that the market was rational, with market premiums adjusting to reflect the changing Ogden outlook. We also said that claims inflation have returned. During the quarter, market prices showed signs of stabilizing. Against this, higher damage severity has led us to nudge up our view of underlying claims inflation towards the top end of the 3% to 5% range. Weather effects also drove higher frequency this year after a very benign 2017 experience.

Against this backdrop, we put through some rate increases. Although not quite enough to cover claims inflation in the quarter, the business we wrote was still at our target loss ratios. Having priced a little ahead of the market, we're pleased that we still achieved some growth. Our own brand policies grew 0.7% compared to Q2, taking year-on-year growth to 3%.

Low average premiums meant that our own brands' GWP was down a little compared with last year as our price increases were more than offset by a lower risk mix. This mix change resulted from refinements to our technical price models and to our pricing strategy -- and to our promotional strategy, I should say. As usual, we'll continue to prioritize our target loss ratios over volume.

Moving on to Home. We're pleased with the way we traded in Q3. Own brands policy count was up a little. And average premiums were 1% ahead of Q3 last year. We achieved good price increases on our new business and also improved retention a little in the quarter. Most of the year-on-year variance in headline premium and policies continued to be the runoff of the Nationwide and Sainsbury's businesses.

Finally, a few words on the weather in the quarter. At the half year, we talked about the potential for 2018 to be a subsidence year. But I'm pleased to report that our latest view suggests subsidence claims, whilst higher, will not materially be higher than we would normally expect.

Next, onto Rescue, where it was another strong quarter for our Green Flag brands, which grew premiums 13.2% compared to last year. And in other personal lines, I'm delighted to announce that we've just agreed to renew our travel partnership with Nationwide to continue to supply travel insurance to their bank customers for another five years.

In Commercial, our investment in Direct Line for Business progressed well in the quarter and remains in line with our plans. DL4B grew premiums 7.6% compared to last year. Overall, Commercial premiums were flat in the quarter as NIG exited several larger risks when we weren't -- which we were not expected to meet our internal hurdle rates, offsetting the premium growth in DL4B.

And now for the outlook, where our ongoing discipline gives us the confidence that we can achieve our combined operating ratio target of between 93% and 95% in 2018 and over the medium term, supported by ongoing reductions in our cost and commission ratios. This still seems at a normalized annual weather load and no change to the Ogden discount rate. For investments, we continue to expect investment return of about GBP 150 million this year, boosted by GBP 30.5 million of gains that we recognized in the first half.

So in summary, we're pleased with how we traded this quarter. Markets remain competitive. And we maintain strong momentum across our own brand portfolio as we continue to benefit from our ongoing investments.

And with that, operator, we'll go to questions.

Questions And Answers

Operator

(Operator Instructions) The first question comes from the line of Thomas Seidl calling from Bernstein.

Q - Thomas Seidl {BIO 17755912 <GO>}

First, on the Home, it seems pricing is less for you in the market. But you also note that the claims inflation is 3% to 5%. So is it correct to assume that there is quite some margin erosion in the Home segment. And hence, trading environment continues to be difficult there? Secondly, on Motor. You said pricing is not quite ahead of claims. Can you give a bit more color of what that means? And also, maybe tell us why in Q3 a further deterioration happened? I mean, last year, you said benign claims; H1, you said return to normal; claims inflation now at the upper end. So what has really changed in Q3 on claims inflation. And finally, on the outlook, you say above 15% return on tangible. Are you also comfortable to reach your LTIP target, which is 17.5% at the lower end?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Okay. I'm going to take the Motor one and pass the other 2 to Penny. So yes, what's nudged up in Motor is damage. And what's nudging that up is, frankly, paints and parts and a trend which we talked about before, which is kind of increasing complexity of cars' driving parts costs. So it's just slightly nudged up. We didn't quite price that fully in the quarter. But in the quarter, we still hit our targets, the implication being for that is we were slightly above our targets going into the quarter. We had a little bit of a buffer. And obviously, we don't comment on future pricing. But our track record and our strategy is to hit the loss ratios that we need to hit. So we're never worried about. So we don't like to. But we're always -- we will always trade appropriately. And if that means a volume consequence, we'll take that consequence. Penny, on the other 2?

A - Penelope Jane James {BIO 15157212 <GO>}

Yes. Home. And so it remains competitive, very much as we said at half year. So it's slightly bifurcated market, with lots of people putting price through. But a couple of players there at any point in time not doing so. We have got -- we got claims inflation running at 3% to 5% of long-term range. We have priced claims inflation. So we're pleased about that. What we've seen is some risk mix changes, meaning the average premium is only about 1% or so up, which is why you're seeing us up overall of muted amounts, if you like. But overall, in pretty competitive conditions, we're pleased to have priced claims inflation and pleased we've got a small amount of growth. ROTE, I didn't quite catch the end of the question. But I think the essence is we're not changing our outlook on ROTE at all. So that's a normal. And we're comfortable with the targets.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yes, my point on ROTE was you have a long-term target, which is 15%. But your LTIP as from this year attached with it is 17.5%.

A - Penelope Jane James {BIO 15157212 <GO>}

Yes.

Q - Thomas Seidl {BIO 17755912 <GO>}

And my question was, are you also comfortable to hit the lower bandwidth of your LTIP as much as to 15%?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. I mean, just to step in, I mean, 15% is a hurdle. It's jump -- I mean, it's a very long-term target. It's something which we use to appraise capital decisions and business decisions. We've long said that it's -- and of course, the RemCo has to sit -- has to set ROTE targets that are suitably stretching to the business. And those are set out. So -- but as Penny said, nothing to look at here. No change in outlook.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. And Home, did I get it right, you are not expecting a margin deterioration? Is that correct?

A - Penelope Jane James {BIO 15157212 <GO>}

That's correct. We've priced claims inflation. So the balance is in the risk mix change. So we're comfortable that the margins are flat to risen slightly up.

Operator

The next question comes from the line of Edward Morris calling from JPMorgan.

Q - Edward Morris {BIO 16274236 <GO>}

The first one is just if we could drill down a little bit more on margins in Motor. So you're talking about claims inflation at the upper end of this 3% to 5% range. I wonder if you can just talk a little bit more detail around average pricing and how it relates to your average premium. Because you're mentioning here changes in promotions on PCWs, can you just explain that a little bit? And really, what I'm just trying to get at here is some of your peers have been a bit more clear on their sort of current margin compression in motor. Can you just help us to think about the level of profitability of the business you're writing today versus one year ago?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Okay. So we've priced a bit up. Risk mix has come back the other way. So that's 2 things. One is as we redo technical price models, it's just a consequence of that is you'll get a different risk mix that you're competitive for. And that's happened to have gone to a lower risk mix. It could have gone to a higher risk mix. The other thing is it's just kind of our phasing of promotions on PCWs. So we're anniversary-ing a promotion where we did free rescue, which tends to appeal to young drivers who've got slightly less reliable cars. And replaced it with motor legal protection, which tends to appeal to older drivers with lower risk mix. So that's just a kind of phasing of promotions comment. So none of it is a desire to have a lower risk mix. With everything else being equal, we'd like probably to have a higher risk mix. But it's just a consequence of our science and our promotional strategy. Now what we have said is, just kind of to dive a little bit, is Penny said at the half year, if you remember, that probably a good reference point would be the immediately pre-Ogden level of profitability we're writing at. So the current year loss ratios we achieved in the second half of '16. And that's the kind of level which we expect to see in the second half of '18.

Operator

The next question comes from the line of James Shuck calling from Citi.

Q - James Austin Shuck {BIO 3680082 <GO>}

I'm James Shuck from Citi. Two questions, please. Firstly, can I just return to your comments, Paul, about just the market behaving rationally? I mean, if I look at -- I mean, you posted 0.7% growth sequentially own brands policy count Q3 versus Q2. You say you've increased rates. Could you just tell me what the risk-adjusted increase in pricing was in Q3 for yourselves, please? But also just to square that with the market behaving rationally, because most of the survey that we see, they're still showing quite big declines year-on-year, I appreciate some of that in new business as opposed to actually achieved rates. But it looks as if it's getting harder for you to generate growth and put through rate increase. So if you could just elaborate a little bit on that point for me, that would be helpful. Secondly, just in terms of a prior year reserves development, could you give us an insight into how that's evolving in the second half of the year? You did 13.2 points at H1 '18. So just interested to know how that's developing given some of the trends on the claims inflation that you've mentioned.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Great. Well thank you, James. So listen, we're not going to disclose exactly the percentage rates. We do that twice a year now. We think we probably don't want to over-disclose. But could you get some rates away, as we said, it wasn't quite enough. And therefore, we kind of got back to our target. We're a little bit ahead of it. So we have some trading room for maneuver, which we used in the quarter. I think we've said that the market rationality comment, if you remember, we did an excellent job at the half year I thought about saying. When there were very clear input cost changes over the last couple of years, the markets responded pretty quickly to those changes. That -- so the nature of claims inflation is probably it's like somewhat harder to read because you got to be taking severity and frequency and underlying weather. And so as I think Penny said last time, it may well be that the market will maybe lag a little bit. We obviously don't know the direction of the market. But we're not calling anything out in terms of -- nothing to worry about the market. And we've reassured to see the market stabilizing, which is a change in direction as it was at the half year. So we're kind of encouraged by that. Immediately passed this, as we said, the markets behave rationally. We will, of course, take our own choices into the market. And we have a very clear sense of the loss ratios that we want to be writing at. Penny?

A - Penelope Jane James {BIO 15157212 <GO>}

PYD? Yes. You may recall at half year, I said we do the bulk of our bodily injury, sort of large bodily injury reserve reviews in the first half. And the second half, generally, there's less coming through on prior year developments. So in effect, no new news on that, on PYDs, it's what we said at half year.

Operator

The next question comes from the line of Sami Taipalus calling from Goldman Sachs.

Q - Sami Taipalus {BIO 17452234 <GO>}

A couple of questions. First, on Motor IFP growth, you've been -- you've sort of gone through a period of fairly strong growth there. But am I sort of interpreting your comments right there that you're perhaps approaching the point where you're coming after your target loss ratios. And maybe we should moderate our expectations on IFP growth a bit? Then the second question I wanted to ask was on the FCA and CMA reviews into pricing practices in Motor and Home insurance. It would just be really interesting to hear your view about how you see this and what sort of potential risks and outcomes. If there's anything you can say, that would be great.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. I mean, I think what we're saying on Motor is really, in terms of the market, to a certain extent, what our volumes will be because we will price -- we're priced to hit the loss ratios that we want to hit. And if, yes, the market allows, it will grow. And if the market doesn't, we won't. So that -- the goal seek is the loss ratio. And the outcome is the -- of our competitiveness is the volume consequences. So I think we're pretty clear on that. So it's kind of in a way not down to us. So we'll see. The FCA is a natural next step on that process. It's -- we've been working with them and the industry over the last few years on it. I think we've characterized the market working well for most customers but low barriers to switching, very easy to shop around. And we speak to 80% of our customers each year. Customer engagement is very high. The customers shopping around is very high. So we think it's a market that generally works well. But of course, the question is, are there some customers who probably it would work less well? Obviously, it's a new topic we've been really on, in this case, for a number of years. Actually, it's encouraging to see that in a CEO letter, all the things they set out doing, we're well advance actually on doing all that stuff ourselves already. So none of that is a surprise. So I think we just have to wait and see where the market study comes out. We like the fact that it's evidenced-based. It reflects the complexity of the market. And there will be desire to see there are different market models thinking more generally to work the investment in the current one. And we'll wait and see the outcome of that. Obviously, in -- as long as it's the market that is a level playing field, we'll deploy our assets into that market and see how we do. But it's a considered, thoughtful process. And we are -- we kind of overall welcome it.

Operator

The next question comes from the line of Andrew Sinclair calling from Bank of America.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Just a couple left from me. Just on subsidence claims, firstly, you're saying don't expect it to be materially above normal expectations. I just wonder if you can give us any more about how you've managed to keep such claims to manageable levels and whether you see any material risk of delayed reporting of such claims. Secondly, just on the competitive motor market, how much temporary effects in the quarter did you see from competitors preemptively allowing for things like whiplash reform and then backing that out after delays as opposed to doing it early in Q3?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. Yes. We don't think subsidence -- sorry, we don't think whiplash kind of figured really in it because it was all -- the timing of it now since it's going to be delayed, it wasn't within the 12-month lead-in period. So -- or it's just about the very margins of it. So we don't think that's a factor. Subsidence or subsidence, we've been debating how to pronounce it this morning.

A - Penelope Jane James {BIO 15157212 <GO>}

Yes, subsidence. Look, we've seen a small uptick in the frequency but not as dramatic as sort of through the vent levels. And we reserve a fair amount we allow for a normal level of concern in a plenty of way. So we think there'll be a small uptick but not material, single-digit million.

Operator

The next question comes from the line of Greig Paterson calling from KBW.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Just have 3 questions, just a catch-up on the other lines.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Greig, unusually, we can't hear you very well. Could you speak up a bit?

Q - Greig N. Paterson {BIO 6587493 <GO>}

Can you hear me? So in -- I want to do a catch-up on the other lines. Could you give us a feel for rates versus inflation in your Commercial book, in your Rescue and other personal lines book and in the Home partners book, please?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. So which should we go first with? I mean, I think Rescue is kind of a little bit volatile because, obviously, weather has an impact. So generally, as cars are getting more (novel) frequencies going down but severities going up because cars are more complex. So it's a little bit of the same thing as we see in the garages on damage. But generally, we're pleased with the profitability of Rescue. And we're particularly pleased with the growth of Rescue. So everything that we've talked about. I think Commercial, listen, we're extremely focused on pricing claims inflation. You'll see that in the NIG volumes. So we are right first on it, on the NIG book. And we are happy to take, yes, almost a free pass on volumes for the team because we're -- really, the objective of that business is to get to our target levels of returns. Then the claim news about DL4B is that it's a very profitable book. These are very good products. And we're very pleased with that. So we're, again, happy with the rating environment in Commercial. And we're bearing fruit now in the bps in the DL4B, very happy. And then we're very, very rational and value focused in NIG. Partners?

A - Penelope Jane James {BIO 15157212 <GO>}

Home, yes, no, we're pricing inflation across the whole book, including partners.

Operator

The next question comes from the line of Jonny Urwin calling from UBS.

Q - Jonathan Peter Phillip Urwin {BIO 6126952 <GO>}

Just one left for me. So what's the risk the claims inflation breaks up above this 3% to 5% long-term range? And the reason I ask is, obviously, we've seen an uptick in the quarter. But also just thinking a bit more about the Nordic markets and Norway in particular, where we're seeing just consistently rising Motor claims inflation mainly due to sort of hybrid and electric cars. But do you think there's a similar risk in the U.K.?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. I mean, I think, Jonny, the -- I mean, I think as we've long said, probably the risk to the market is claims deflation, right? So as long as it nudges up, it's actually -- it's potentially a market size increase. And we think claims inflation is not unexpected. And you can price for it. I think we do think overall technology, which, whilst we have some short-term costs from -- as we talked about in the damage frequency, it should reduce -- and it's a good thing for the world. It should reduce the number of accidents or severe accidents. That's the reason we discount autonomous emergency braking. So we do think technology will win through. And claims will moderate and, at some stage, start to deflate. And I think that's the bigger risk. So -- but the nature of change -- of claims is changing within the mix. So yes, I mean, as we said before, the more problematic, longer-term trend for the industry is claims deflation, albeit if people have fewer accidents, that's obviously a good thing for consumers. And we welcome it and will take some adaption. But it makes our lives somewhat easier for us, besides claims inflation, as long as it's predictable. And as we said, this is a nut job. This isn't the kind of unpredictable change, Jonny.

Operator

The next question comes from the line of Dom O'Mahony calling from Exane.

Q - Dominic Alexander O'Mahony

Just a couple of questions from me, if that's all right. Just coming to the Civil Liability Bill, the whiplash reforms, I appreciate it's quite a difficult question to answer. But would you expect your competitors to start sort of pricing in and guessing the claims impact of those reforms ahead of the reforms, i.e. sort of early sometime next year? Or do you expect them to wait until April 2020 when the reforms are actually in place. And then you can actually see what sort of impact it has on claims experience? Then just a second question, related to the comparethemarket.com decision, your preliminary decision yesterday, clearly, it could be bad news for them. But I wonder whether you think there might be any potential negative impacts on the insurers themselves. Given that these most favored nation clauses in the contracts presumably was signed by the insurers, do you think there's any potential risk that the Competition and Markets Authority looks at the insurer as well and adjust the PCWs?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. Thanks, Dom. Listen, I mean, as you say rightly, the best case into Compare the Market. And I can say we're happy with the interim filings published last week. And that's probably all I could -- can and should say on that. In terms of Civil Liabilities Bill, I think the first thing to say is that we're all, as insurers, committed. And actually, as we've said before, the market behaves exactly in this way, that all the benefits will go to customers. And that's the way the market's behaved. And we've pledged to government to do that. And we will follow that through. And rationally, what that should mean, if it was numerically driven, that would be gradual. As you do renewals, it would be a mathematical relationship to how many months would be applying in the new regime. Obviously, that's a limit of what I'm going to say on future pricing because, obviously, how people choose to price is up to them. But as we said before, this is not going to stick to the sides of insurers. Rightly so, this will go to consumers.

Operator

The next question comes from the line of Andrew Crean calling from Autonomous.

Q - Andrew John Crean {BIO 16513202 <GO>}

Just 2 questions. Firstly, is the inflation in Motor, at 5%, a function of the fact that frequency fell rapidly in the Third Quarter '17. And therefore, there's a base effect? And secondly, you talk about your midterm ambition to maintain 93%, 95%. Could you flesh that out a bit for us as of now or the full year in terms of what you see in terms of PYD because I think you go back coming down and how you see that being made up in terms of current year claims and expense ratios?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. Thanks, Andrew. So yes, listen, let me try and help you on severity versus frequency. So basically, our 3% to 5% is severity driven because we have kind of observed frequency being pretty flat. You -- against that, you have kind of better than flat years, which is what '17 was. And you have worse than flat years, which is what '18 happens. It looks like it's being driven by too cold and then too hot weather. So what when we say underline, we're really talking about severity there. Then obviously, you'll get better and worse, depending on frequency. Hope that's clear.

Q - Andrew John Crean {BIO 16513202 <GO>}

So it's not burn -- you're not talking burn costs, right? You're just talking average claims?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. Now obviously, we change -- if long term, it look like frequency's going up or going down, we do not reflect that. So for long term, at the moment, reads severity. Penny, on the PY?

A - Penelope Jane James {BIO 15157212 <GO>}

On the PY, I'll take the feedback on the -- of the year-end reporting on the current year and prior years, which we've had that conversation, Andrew. And heard you. I think, yes, the other thing to note is it is also supported by kind of reductions in the expense ratio and the commission ratio. I think in the short term, that's driven this increase this year and previous years by commission ratio falls. There is a lot of work going on at the moment to support the expense ratio reductions. We're investing heavily to get cost volatility out at the moment. So that probably accelerates over time in terms of expense ratio reductions rather than all coming through upfront. But I will take your point on the wishing for more insights as we go.

Operator

(Operator Instructions) The next question comes from the line of James Shuck calling from Citi.

Q - James Austin Shuck {BIO 3680082 <GO>}

I suppose this is partly a request for the full year as well. But if you're able to give any insight now, that would be helpful. But obviously, a large part of what you're doing is to drive up the numbers of products that people own. And we haven't really had any update on that since the IPO. Are you able to shed any insight now in terms of, yes, the proportion of customers that have a Motor policy that actually own one or more products? That would be helpful to me. And if it was given now, then certainly, something at the full year just showing how you're progressing on that would be very helpful. Second question is just -- or just around the timing of the succession plans around the CEO and when we might expect an update on that, please.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. Thanks, James. So my understanding is the process is on track. You're aware of kind of my year. And I'm sure the board will try and have succession or aware about those timings, obviously, it's getting the right outcome is more important than a quick one. But the benefit we have is I'm here fully focused -- hopefully, this comes across today -- and all over it. But we got a good track record, I think, of hiring well and managing succession well. So the board's on with that. Obviously, it's not -- it's on a process, though, I must speak here. But my understanding is it's going to plan. And I'm here for as long as I'm needed through that year and, as I speak now, fully focused on the business. In terms of multi-products, as we haven't done a particular update, what I'd probably refer you to is, as we talked about the new systems, which are on track, built into those is making it much easier for us to cross-sell to customers. So you know that's always in this kind of CRM capability and the multi-products capability, things like doing multicar in different ways. So we're pretty good at this thing already. We do it by kind of cross-product discounting in a relatively simple way. But we get a much more sophisticated tool sets. And I think we are excellent marketeers. So I think the new tools and that is one of the areas that we think there should be opportunities in new systems alongside pricing sophistication, alongside self-service. So that's why we're excited to say that we're on track to bring that in next year or something around that next year.

Q - James Austin Shuck {BIO 3680082 <GO>}

But nothing you can share at this moment in terms of the base points sort of starting into those new systems?

A - Paul Robert Geddes {BIO 2474781 <GO>}

We will take away the request for disclosure on it. Yes. We'll add that to our list of things you'd like us to say.

Operator

The final question comes from the line of Greig Paterson calling from KBW.

Q - Greig N. Paterson {BIO 6587493 <GO>}

I'm sorry, just in terms of the Guidewire, when you said it's coming online next year, I assume you start with new business and then move on to renewals. When do you think the process of moving all new business and renewals will be on the new system? Sort of what's the end date?

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes, I mean, it's going to be -- it will take -- it will be done in phases, Greig, to be able to do it safely. But we're not going to hang around. But it will take a couple of years to get through all that. We're obviously going to be making sure that we roll out in the schedule which maximizes our learning and then maximizes benefit realization. So we are -- we have a very sophisticated plan. And we know exactly how we're going to do it in subphases and phases. So we're really into the exciting part about this becoming real and us having quite detailed plans about the phasing of it. And I think what we'll probably do is tell you as we do it, Greig.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Then before, I mean, because we saw Hastings do a sort of point of inflection starting off the amortization of the capitalized software development costs. Are you going to do a sort of immediate start-from dates? Or are you going to phase in the amortization of this -- of the CapEx on the system?

A - Penelope Jane James {BIO 15157212 <GO>}

Sorry, I'm not certain kind of exactly how it is going to get. But we will phase it as an outcome of how the other value is building and how the rollout is happening, as we intend to.

Q - Greig N. Paterson {BIO 6587493 <GO>}

But it's not going to be a cliff edge, it's going to be a slow phase?

A - Penelope Jane James {BIO 15157212 <GO>}

I'm not a big fan of cliff edges if I can help it. So -- yes.

Q - Greig N. Paterson {BIO 6587493 <GO>}

It makes you feel alive, cliff edges.

A - Penelope Jane James {BIO 15157212 <GO>}

I'll bear that in mind.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Very good. Awesome.

Q - Greig N. Paterson {BIO 6587493 <GO>}

I mean, if there's a will, there's a way.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Thank you very much indeed. Very good.

Operator

We have no further questions in the queue. So I'd like to hand the call back over to your host for any concluding remarks.

A - Paul Robert Geddes {BIO 2474781 <GO>}

Yes. Awesome. Thank you, everybody. Good to speak to you. And we will be in touch. If we don't speak before that, have a good Christmas.

Operator

Thank you for joining today's call. You may now disconnect your line.
