Q2 2017 Earnings Call

Company Participants

- Andrew Rose, President, Chairman & Chief Executive Officer-compare.com
- Cristina Nestares, Chief Executive Officer UK Insurance
- David Graham Stevens, Chief Executive Officer & Director
- Geraint Jones, Chief Financial Officer & Director
- Lorna Connelly, Head-Claims
- Milena Mondini, Chief Executive Officer, Europe Insurance

Other Participants

- Andreas Evert Cornelis van Embden, Analyst
- Andrew J. Crean, Analyst
- Andy Hughes, Analyst
- David Andrew Bracewell, Analyst
- Dhruv Gahlaut, Analyst
- Greig N. Paterson, Analyst
- Kamran Hossain, Analyst
- Ravi Tanna, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

David Graham Stevens {BIO 6807391 <GO>}

Good morning. Welcome to Admiral's Half Year Results Presentation. Those of you who don't recognize the picture in the background haven't been to Cardiff that's the (00:11) in Cardiff. You're all very welcome to come and visit. I'm five minutes earlier (00:17) an interesting read.

I'm going to start with the introduction and then Geraint, our CEO, will dive into some of the most financial aspects of the business before Cristina and Lorna, respectively, head of UK Insurance and head of UK Claims, will talk about some of the more operational aspects in the UK. And then Andrew Rose has joined us from across the water, talk about the Price Comparison in general with compare.com, in particular before Milena come around, talk about our international insurance operations.

So, those are few words of introduction for myself. Being the six-month of continued growth with 14% more turnover, 13% more customers than we had a year ago. By the half year, we were just short of 5.5 million customers across the world, we're now over 5.5

million customers. Year of growth also in the underlying dividends up 10% from £0.51 to £0.56, reflecting our strong capital position. A year of some growth, modest growth, in our profit, 1% up profit before tax, 3% earnings per share, reflecting some continuing headwinds from the Ogden change announced in March. When we did our full year 2016 results we announced that Ogden would cost us around £150 million post tax and that we were effectively taking around two-thirds of that in the 2016 results. So the other third carries into 2017 and beyond.

So, different rates of growth. Growth everywhere. The different rates of growth is steady in the UK. Car Insurance business up 7% year-on-year, particularly pleasing in the context of the hiatus in growth from the first three months of the year, following our decision to increase rates quite substantially in December on the announcement of the Ogden review and the fact that the market didn't follow until March. Much more dramatic growth in other parts of the business, 43% notably in our household customers insured in the last 12 months and 27% in the number of vehicles we insure internationally.

So, to expand on that, over to Geraint.

Geraint Jones {BIO 19738535 <GO>}

Thanks, David. Good morning, everyone. I'm going to talk briefly through the group results, then go on to the UK Insurance profits, and then talk about capital and the interim dividend. But first up, let's look at the group profit.

This is our usual chart that shows the contributions to the overall result that come from the different parts of the group. As David mentioned, the first half profit is £195 million, that's modestly higher than H1 of 2016. That includes an improved result in the international insurance. Losses down to £10 million from £13 million. That's in the green. And notably, that includes a much lower loss in our U.S. Insurance operation.

H1 also saw an improved Price Comparison result. That's in the light blue. You'll have to trust me on that. You can't see that at all. Again, improved numbers there from the U.S. operations being the key reason for that change.

So, these positive moves were offset by higher group or central expenses, which is in the yellow. As you can see from the text on the side, that number includes the debt interest, share scheme charges, and business development costs. And the key reasons for our higher number this year, higher share scheme charges, higher head count, but also higher costs in business development, notably from Admiral Loans.

Not forgetting, of course, the UK that's in the sort of dark blue. And as you can see, the UK Insurance profit was broadly flat this year compared to last half year. And the combination of all those factors gets you to a slightly higher H1 result compared to H1 2016.

So I'm going to take a few minutes now to talk about the UK Insurance profit. On the top of the slide we show the UK Insurance profit which now covers private car, household and van over the past three half year periods. On the bottom, you can see the breakdown of the UK Car Insurance combined ratio, which is obviously critical to the profitability. Cristina is going to cover households shortly, but as you can see, that business made another profit in H1, slightly above 2016 despite adding more than 40% to the customer base and we continue to be conservative in booking loss ratios on the household business.

Our car insurance at the H1 profit was basically in line with last year so, that's explain what's going on there. So, you can see that one or two things in the text distort the 2016 results we flagged last year and that includes the commutation. And as we said back in March, we will have some residual hangover of the Ogden impact this year and for the next few years or financial years. The impact to this half year is approximately £10 million. That's enough to pull the higher current year loss ratio and lower profit commission.

And probably the key factor is a lower reserve release this half year versus last half year. As you can see, 21% of premium is still substantial in relative terms that has that percentage being more in line with 2016 and 2015, then obviously we'd have seen an increased UK Car Insurance profit. So, why wasn't it quite as high? Understanding the development of the projected ultimate loss ratios over the past few periods is part of that answer. So, let's take a look at that.

This chart should be at least half familiar to you. It's the projection of the ultimate loss ratios by accident years. And this chart shows the position at the end of 2015 and obviously the bracket show the change in those projected ultimates compared to six months prior. What we tend to see over time is improvements in these initially quarters projections at the level of uncertainty over the outcome growth.

So, for example, on this chart, you see 2012 accident year improving by 3 percentage points in six months. If we roll that on six months to the middle of 2016, we again see some pretty material improvements to some of the years. Then we come to the end of 2016 and actually here the position is largely stable, one or two small improvements. And don't forget that's inspite of the new Ogden discount rates, minus 0.75% being reflected in these projected ultimates.

Roll on again to the middle of 2017, the current period and after updating all our case reserves for the impact of Ogden and seeing that going through, pleasing to see generally stable outcomes in the projected ultimates, small improvement on 2015. And here we've added, in the red line, the end of an era and maybe the last time we'll see on a comparable basis Admiral against the market and institution of the graph.

As you can see the assessment of the ultimate cost of the minus 0.75% Ogden rate remains unchanged, and obviously these projections continue to reflect that route. It is appropriate to say that there's prudence in these projections, and particularly in the most recent years. At this point, we don't give a current year number as you know, but certainly on an underwriting year basis, at least, I would expect that 2017 will be better than 2016 on an ultimate basis.

As we've said in the past, the size of Admiral's reserve releases is driven by two factors. Firstly, the release of the initial margin built against those first projections. But also from the improvement we see in the projected ultimates over time. What we've seen in H1 is stability in those projected ultimates. But in light of Ogden, I think it's pretty positive. That stability leads to a lower albeit still substantial reserve release in H1. That's 21% of premiums.

Let's take a look at the releases in a bit more detail. As usual, top chart shows the release percentage, shows the premiums focusing on the release on the original Admiral net share of the reserves over the past five half-year periods, and a couple of observations on the numbers.

Firstly, the first half of 2015 and 2016 benefited from the improvements in the projected ultimates that we talked about earlier. And so, very large reserve releases of 29% of premiums. The second half of 2016 next, was obviously heavily impacted by Ogden, basically no release at all. And finally in the first half of this year, this 21% is well above the long-term average, which is somewhere around 15%, but it's lower 21% compared to H1 2015 and 2016.

As is always the case, there continues to be a prudent and significant margin above the projected ultimates in the booked reserves. And, as we usually say, we would expect to continue significant reserve releases if the claims develop as we expect them to.

Just to finish the story on releases, this bottom chart splits the total release into the elements on Admiral's original net share of the reserves which is in the dark blue on the bottom. The top, the light blue shows the release that comes from the portion of the reserve that was originally reinsured in the quota share contracts. And just to remind you that 2016 as you can see was impacted by the commutation of 2014, which adversely impacted that number. There've been no impact, no repeat of that impact this year. No commutation in the first half mainly due to Ogden. It's just important to note that we do continue to project profitability on all underwriting years.

Changing topics to look now at capital and dividends, firstly capital. A pretty similar picture here to six months ago with a strong solvency ratio at 214%, which is largely in line, slightly higher than the position at the end of 2016. The only really significant movements in the half year were the economic profit offsets by the interim dividend. And so much more a normal six-month period than the second half of 2016.

Just to give an update on the calculation of the capital requirements and the internal model, the basis of the solvency capital requirement remains the Standard Formula plus the capital add-on. And the work on the internal model development continues. So, as you can see, we have decided to increase the scope of the model beyond just UK motor insurance risk to also capture market risk. We believe that will lead to a more concrete model of the most important risks to the Admiral Group.

Now, inevitably the work involved in building, developing, testing, validating and so on, that bigger model has led to a delay in the expected application dates, which we now expect them to be in the latter part of 2018. As we said over the past few results announcements, we formally confirm our target solvency range once that internal model position is clear.

Moving now to the interim dividend, as you can see, the strong capital position is meant we've been able to move the interim 2017 dividend up by 10% compared to the interim 2016 payments of £0.56 per share up from £0.51. Just to note, obviously we paid the £0.119 scheme additional return on surplus capital on top of the underlying dividend in H1 2016. £0.56 represent the payout ratio of 98% of the first half earnings but slightly higher again in the first half of 2016.

We repeat the dividend policy on the right hand side of the slides and we reiterate that we'd expect dividends to be in the order of 90% to 95% of earnings for the foreseeable future. And also to repeat the point that we don't expect to talk about any potential returns to surplus capital until we get the internal model certainty. Dividend dates are also on the bottom of the slide.

To summarize the key messages from the first section. Very pleasing to see continued growth across the group, especially again, in household and international insurance. Group profits were slightly ahead, and improved results in international insurance and comparison and we continue to report a very strong solvency position, even after a fairly full payout of earnings for the first half. £0.56 interim dividend being 10% ahead of interim 2016.

That's it from me. I'll hand you over to Cristina and Lorna to discuss the UK in more detail. Thank you.

Cristina Nestares {BIO 18674745 <GO>}

Good morning, everybody. I want to give you an overview of our UK Insurance. On motor (12:35) about the loss ratio and the overall result and Lorna is going to cover specifically claims inflation. So, I will talk briefly about changes in prices.

On the household, I want to talk about the market, because we had gone through a year of a change and also our result. And I want to answer the question of why are we growing when other competitors are not growing. And finally, I want to talk about our new product which is van.

So, when we look at changes in the motor market in terms of prices, we all know that since March, (13:09) Ogden rate, there has been continuous price increases in competitors. However, our strategy was quite different, because in mid December last year, when it became obvious that there was going to be a change, we increased our prices significantly. That meant, as you can see on the graph on the right, that our Times Top decreased and also did our sales.

We were surprised to see that competitors didn't follow and we, for the first two months of the year, we were selling less than expected. Now since March, competitors have been putting prices up, and we also continue doing so.

Let's look at the household markets. What we have seen in terms of prices is that for a number years, it has been quite stable. I think this is partly due to the fact that we have enjoyed fairly benign weather. Now, this is changing and we're seeing clear signs of prices going up in the first half of this year. We think that behind this is the Floodre level, which put pressure on expense ratio and also, claims inflation especially in escape of water (14:12).

So, what have we done in Admiral? Well, we put prices up in Admiral already in Q4 of last year as a reflection of the claims inflation that we were also experiencing. What we saw is that since around February this year, prices in the market started to go up. And that meant, again, you can see, that our Times Top increased and that meant that also, our sales did so. Now, since then, we have continued putting prices up. So, overall, what we've seen is in the past nine months, we have put prices up by about high single digits, and we have been able to grow because prices in the market have continued to increase.

But, I think, it's also interesting to talk about the sources of growth. On the graph, you can see a very strong growth trajectory. We grew 43% year-on-year. But there are three key sources of where we get this growth. First, the growth of the Price Comparison market that continues to grow in this period and we're a leading player. So, when it grows, the Price Comparison market, we're also able to grow ourselves.

Secondly, the growth of our direct sales. When we say direct sales, we mean sales that we acquired through direct marketing so, not Price Comparison. But it also means cross-sells, that is selling to our own motor customer book.

And finally, another important source of growth for the household book is the strong retention. In terms of the results, we were quite pleased to see that both the expense ratio and the loss ratio improved in this period. Particularly significant is the outperformance of the expense ratio versus the market. So overall, with the growth and the progress we have made, we have seen profits increasing in the first half to £1.6 million.

And then let's talk about van and the launch that we did in May this year. And it's interesting because I talk about this new product, but truly this is not new to us. We have had a broker in the van business since 1998 called Gladiator. So, what we did this year is that we changed the model, from being a broker to being an underwriter and that started in May as I mentioned.

So, by the time that we finished the broker, we had about 10% of the market and we have 175,000 vehicles covered. So, now that we have become an underwriter, the focus is for this 12 month is migrating that group of business from the broker to the underwriter. So, you should expect a similar level of the size of the book at the end of the year.

We are going to focus on learning about the markets, learning more about the claims experience and about pricing and for the future, we expect to achieve similar results to motor, especially on the expense ratio.

Now before I finish, I want to talk about the customers, because delivering great service is at the core of the Admiral culture. And therefore, I was disappointed that we sent inaccurate information for our customers, during April and May on our renewal letter. Now all the letters that are issued today have correct information. But I think it's also important that we focus again about this great service that we try to give to our customers. And I thought I talk to you about two examples on how we try to constantly reduce the level of complaints.

You can see at the top, there is a graph that shows the results of the complaints referred to the Ombudsman, and we can see that these results are better for Admiral than the average of the market. On the bottom, you can see a graph on the claims complaint that we have versus new claims, and you can see that period after period, we're constantly increasing or improving this level from a very good level. And finally, we are proud to have won the Best UK Car Insurance Provider for four years in a row.

Now, I'm going to hand you Lorna to talk more about claims inflation.

Lorna Connelly {BIO 19791125 <GO>}

Morning, everybody. I'm pleased to be here today to talk to you about claims. I don't know about you but it certainly seems to me that not a week goes by these days without picking up a paper and reading some headline about claims inflation. We thought we would take the opportunity today to just touch on some of those headlines and perhaps then what we think of the key drivers behind them.

So, to start it off, this first graph is an illustration of the recent (18:41) and you can see from the blue line that the overall claims frequency has been falling since 2015. This is great news and the reason for that, we think it's primarily to the vehicle and road safety improvements that we've seen.

However, in contrast, looking at the green line, you can see that the average cost has been increasing for that period, and this is driven by inflation, the cost of damage, and bodily injury claim which is affecting everyone.

One of those recent inflationary pressures Ogden included (19:09) reserve mix. You can see from the second graph at the top light blue portion representing large bodily injury claims has increased significantly post Ogden reserve (19:19). I want to emphasize here (19:22) and not actual or ultimate cost.

If you turn to the next slide, once we just saw that frequency has been reducing, the cost of repair in cars and certainly newer cars (19:34) with enhanced safety features and advanced technologies (19:37) frequency saving.

And to illustrate this point, some of the most simple of claims, you can see here some of the stark differences in the parts prices between older and newer car models. And parts like headlights are just evolving all the time. If you look at Audi A4, moving from halogen lights to xenon, this represents the 421% increase in car cost.

But frankly, I think some of these are really extreme, but it's not just companies and manufacturers like Audi where we see inflation. It's across Ford, Citroen, Mazda and the like. So what are we doing to counteract this? Well, we have innovative approach to procurement which is very closely aligned with our claims experts. We are building relationships with manufacturers, and we're investing to the pricing opportunities. And more simply (20:25) to say that recent industry benchmarking shows our inflation on damage is below the market average.

Moving on to bodily injury and whiplash in particular. It really wouldn't be a results presentation, I don't think, without whiplash reform coming up. Certainly, it seems to have been a constant feature of the year. When I sit here in 2014, I said that the claims notifications received through the (20:49) was the highest since the quarter it launched. But today in contrast, we can see the June 2017 was the lowest volume coming through since the LASPO reform which is particularly pleasing.

So, what's driving that reduction in frequency? I'd like to say that (21:04) further consolidation of the bodily injury (21:07) market, but more than that it's far greater success I think with insurers in successfully defending (21:14) and frankly bodily claims (21:19) which is great news.

We've included a reminder here for you of what we think is included in the whiplash reform. A question would it actually happen. I think those that are close to it say that despite Brexit, the government is still seeing to have a strong will to see these reforms through and the fact it's included in the Queen's Speech, probably gets a little bit of weight (21:39) to that. However, there's still no clarity on the time scale to implementation. So, we'll have to wait and see.

We also note here the market expectation is that the cost per claims and frequency following these reforms will drop and that's not necessarily our long-term view. That's small BI and (21:59) significant when it comes to large bodily injury claims in the post-Ogden.

So, again, when I sit here in 2014, I talked about the significant inflation that we've seen across large bodily injury claims in the market, and I certainly didn't expect to sit here just three years later talking about an even greater inflationary element of the same claims which is the change of the discount rate.

Well, we put this slide together for you and this example is the main element that go into reserve in the large claims (22:26) elements that are affected by that discount rate. And in this example, you can see we've used a moderate brain-type injury for a young person and you can clearly see the difference in reserve between the original discount rate of 2.5% and the minus 0.75%.

I'm sure you can imagine the impacts of those rate changes on the catastrophic claim, when I say carriers, and even multiple carriers 24/7. And we can understand the impact of the change on reserve-in, so what about the real impact of the change they say in handling claims. Is it really that stark?

Well, the discount rate is just one of many factors that come into the negotiation process and those truly catastrophic claims that I just mentioned that are most affected by the Ogden rate, they tend to be multi-factorial. What do we mean by that?

Loss in these cases will involve lengthy dispute of the liability and/or a high degree of contributory negligence. With experience, investigation and application maybe here are key. In addition, a lack of consistency between medical and statistical expert to accurately predict life expectancy is another area of contention between parties.

But I think the combination we've too frequently encountered issues amongst many others means that the reality of the situation when it comes to settlement often means that you talk about lump sum of those, rather than (23:42) of all the individual issues. I think that will enable us to still carry on and settle claims. And this is where we see our experience and approach to really win through. And actually in a minus 0.7% world, it isn't (23:55) more valuable.

And then on this final slide, we tried to summarize our key strengths in claims handling and I'll leave you to read most of it at your leisure. But I will just call out a few points. If I start at the top right, on tactical edge, I think that every large claim has a key action plan (24:14) particular claim. And the most successful one here, claiming (24:19) is now we've chosen to benchmark so.

In the technical edge, I say not only on intelligent use of robotics, it helps us become more efficient and accurate (24:28) to concentrate even more time on the technical aspects of their roles. At the collaboration, I'd say (24:35) achieved fair outcomes to all parties, so we are readily commended for our approach for the claimant lawyers, which is not easy.

And finally, I do like to emphasize that the overriding strength of interest in our claims handling is having staff who are not only highly experienced but care passionately about the outcomes for us and the customer. And of course, all insurers will have them, handlers and care like theirs, so (24:57) I think it's our ability to consistently achieve it, right across the board that really stands out and that's down to our culture.

So, what will happen to the discount rate? Well, we don't know. And much like whiplash, it does – (25:13) the government to change it, but again we have to wait and see. In the meantime, please remember that we are fully reserved at minus 0.75% and we'll continue to work hard to settle our claims on the best possible term.

I'll hand you back to Cristina.

Cristina Nestares {BIO 18674745 <GO>}

Thanks, Lorna. So, to summarize the UK Insurance section, we have continued to quote in car but especially in household, and we have done so while increasing our profit.

Now, what are we focusing now at the moment? Well, we have seen the rollout of our new system, Guidewire, that allows us to increase the pace of change. So, we're focusing on creating a bigger or a more intense customer journey online, both at sales stage, self-service and online. We're also focusing on increasing our telematics book and our telematics offering and the products that we offer.

And finally, we're also improving our pricing capability by adding new external databases and also improving the tools that we use. So, for the future, you should expect that our strength in pricing, our cost control mentality and in some claims negotiation puts us in a good place to continue our growth.

Now, I'm going to leave you with Andrew to talk about the Price Comparison.

Andrew Rose {BIO 18735195 <GO>}

Thank you, Cristina and Lorna. Good morning, everyone. Let's kick things off with compare.com. First and foremost, compare.com hit its objectives in H1, hitting marketing breakeven, revenue exceeding marketing spend in two of its core states. The team at compare worked very hard to achieve this goal and I'm, obviously, very proud of them.

We extended that win, however, to 20-plus states, achieving overall marketing breakeven countrywide in each month of the first half of the year. This was beyond our expectations and was made possible by meaningfully reducing our acquisition cost metrics and delivering even more rates from even more carriers to grateful customers.

Now, this was not done by slashing quote and sales volumes. On the contrary, we increased our clicks in sales, but on a reduced overall marketing spend. The added volume pleased our existing panel members and makes it easier for us to attract new ones.

As we reflect on H1, the team achieved so much. We've made great progress on our metrics and maintained a strong growth trajectory, an improvement on top of all these existing gains. More volume at lower cost is one of the keys to success for this business and while we cannot yet claim victory, we're pleased with our progress.

Consumers obviously understand and prefer this approach and the more rate from well-known brands we show them, the happier they get. We now serve all 51 markets in the U.S. recently, adding Alaska.

Carriers, the other half of our customer equation, remain quite satisfied as well. They like the flexible quoting model we provide, as well as the increased volume of customers available to them. These achievements do need to be caveated as we remain on a small relative scale in the U.S.

All that said, challenges do remain. As a reminder, the U.S. is a very large market, $208 billion, both a challenge and huge opportunity, and it's a fragmented market, 51 discrete markets with carriers catering to specific segments, non-standard and standard, rather than quoting all comers.

Competition is fierce with insurance advertising reaching $6.5 billion last year alone. The four biggest players dominate both the airwaves and market share. And while they're showing greater willingness to participate on our platform, none have yet fully embraced this channel. Complex coverages, agents and bundling are all reasons why this market will not develop as quickly or likely as far as the UK market did.

Now that I've given you the optimistic and pessimistic views of our business, I'll return to our overall economics. Operations last year and this year continue to yield better than forecast overall losses, and we hope to continue that in H2. We believe the comparison model is now part of the U.S. distribution ecosystem and we plan for it to remain that way for years to come. I will be remiss as an Admiral business if I didn't highlight that compare.com now regularly shows up on various top workplace lists. It's all about the team.

The inevitable question is when will we achieve overall profits? The short answer, we don't know. We don't know the real answer. And when it becomes possible for us to do that, we could choose more scale further delaying profit. Reaching it depends on our ability to do two things as you can see above, scale the marketing and improve the ultimate conversion of our carriers.

We're scaling marketing now with our most successful TV campaign to-date. Progress on conversion is being achieved both with internal and carrier-driven efforts. As you can see from this chart, on relative carrier conversion rates, there remains a great opportunity for improvement and that improvement goes straight to the bottom line. For compare.com, I want you to take away a message of nice progress. We're encouraged, hopeful, even optimistic. But it's not time for celebration as much more work remains. More time is required before we can claim that ultimately desired outcome.

Leaving the U.S. and returning to where it all started, let's talk about Confused.com. In a market that is struggling to differentiate, one comparison business from another, Confused.com has made the strategic shift to focus on drivers and all the things necessary to be the number one site for car savings. This move has required investment in both new product verticals, as well as a new position in consumers' minds.

These investments include a 30% increase in marketing spend with an ad campaign featuring James Corden. It's yielded greater top-of-mind awareness at the expense of near-term profits. We remain encouraged by the early results of this strategic shift and hopeful that this will yield higher profit and market share in the years to come. As you know, there are no guarantees and time will be the judge of this shift in strategy.

Moving to mainland Europe, let's discuss our comparison businesses in France and Spain. Overall, the two businesses showed both growing revenues and profit. LeLynx faced greater market competition, but still yielded double-digit revenue growth and panel improvement. The team in Paris remains focused on increasing brand awareness and preference, while improving conversion and customer experience.

Rastreator ended another excellent half-year and remains the clear leader in the Spanish market. They are using this position to diversify into both telephone and finance with promising early results. The team in Madrid remains focused on improving price accuracy and conversion, while beginning to offer data as a service to the market.

Overall, Admiral's comparison businesses remain strong. compare.com is growing in a challenging market, delivering better than forecast result. Confused.com is investing in a new product vertical and brand position that holds the promise of differentiation and greater long-term profits. Rastreator and LeLynx have different market positions in different markets, but both continue to grow.

With that, I'll hand the floor over to Milena to talk to you about the International Insurance businesses.

Milena Mondini {BIO 18674746 <GO>}

Thanks, Andrew. Good morning to everybody. Really glad to be here today to talk to you about the progress in Spain, Italy, France, and United States. And I'm glad because it is a positive feature overall with substantial growth everywhere, improvements on our key metrics, a reduction on the overall losses from £13 million to £10 million as Geraint reminded as before, and also a slightly more positive outlook in the market than a couple of years ago. So, with that in mind, I will start to talk to you about Europe and then move to U.S.

So just mentioned the first positive note come from the restart of economy and the opportunity that local market presents to us. Everywhere, we are in the worst part of the cycle. The cycle is worsening. And after a year of massive falling rates in Spain and Italy, we finally see some signs of price increase and this is quite relevant to us.

Historically, increasing price has been a strong push for customers to shop more to Price Comparison sites and direct channels. And it is worth to remind that differently from UK, in Europe the direct channel is still quite small and has quite more share of the market, from 15%, 20% in Spain, depending on how we account for average models to a very tiny 4% in France.

Another restraint to the development of the direct market on the last year has been the reduction of car sales. Actually in the last three years, the trend is reversing, and now it's almost fully recovered. Spain, for example, we're now back to the same volumes of cash flow than in 2008 after it almost halved (35:17) in 2012. If we are to do this incessant increase in the adoption of mass point (35:24) as a way to look for car insurance and buy car insurance, you see our overall – the outlook of the market is slightly more positive than it used to be.

We are now already growing at quite substantial speed. We passed the market of 200,000 customers in Spain and 100,000 customers in France. Brand and conversion have been the main drivers of this growth. You may remind that six months ago, we aligned our focus on increasing brand awareness. And so, I'm quite pleased to say that we're improving year-on-year. And, actually, in the last 12 months, we increased an average 10% even with reduced media spend.

Very similarly, 12 months ago, David mentioned that European Insurance as the clear top 1 priority. And this was to increase our share on Price Comparison site. And, again, conversion on this channel is improving between 10% and 20%, and France is staying year-on-year.

We are also enlarging our product offering. For example, we are starting to offer van in Spain, as we are doing in UK, and we're focusing very much on improving the customer journey, particularly aligned with more demanding multichannel customers.

Finally, to support a larger scale, we migrate our IT platform in Italy to Guidewire, that is now adopted largely everywhere in the group. And as a collateral note, it's very nice to see how this partial convergence in technology is actually helping us to share more and more best practice at a group level.

Which was the cost of this growth? So, the growth came at a cost of additional £3 million in Europe. That is quite fair investment considering that in the last year, we had more than 170,000 customers and more than £36 million of turnover. And just in the last six months, it was 90,000 additional customer and £23 million of turnover.

On the bottom of the slide, a couple of consideration on the results. On the positive side on the left, you see how we're clearly starting to reap the benefit from the economy of scale. Our expense increased by 7% and corresponding to a turnover increase by 30%. So this means that we're actually growing more efficiently, and indeed, we did reuse our acquisition cost substantially. On the less positive side or the negative side, our loss ratio combined deteriorated. And this is a partial reflection of the substantial growth in the worst part of the cycle, on partially reflection of moving our reserve methodology in France and in Spain towards the same methodology we're adopting already in Italy and in UK. And on the bottom right of the graph or the slide, you can see a graph that shows our movement in the booked loss ratio for Italy as an example.

Now, before to move to U.S., I think it's worth to remind that ConTe had another half year of profit, continue to show an underwriting advantage versus the market and more particularly towards the rest competitors, and at the same time is growing quite substantially.

So, we move now to U.S. The trends in the market as you can see, are very similar to Europe, but much more impressive. This is because we are used to see a very flat combined ratio in U.S. historically, and such a strong gap turn in the cycle has never been seen, at least not in the last couple of decades.

And results of U.S. of Elephant are quite impressive. We did increase our turnover and our customer base respectively by 19%, 17%, and at the same time we reduced our losses from $15 million to $6 million. The reduction and improvement of these results are mainly due to improvement of the technical results and improvement of the loss ratio in U.S. And again, this was the main focus that David highlighted six months ago for the United States thing.

Now, I said that we've also been lucky because we experienced a more benign weather in Texas where you may remember we had a big hail last year. And given I mentioned Texas, I think it's worth to remind that we are now trading in six states in United States: Indiana, Illinois, Texas, Tennessee, Maryland and Virginia, and that Texas alone represents more than half of our customer base. Actually, as an insurance market, Texas alone is of a comparable size to France or to Italy, much larger than Spain and even larger than UK. So, that's been really key in order to achieve new results for us.

Now, to summarize, again, we had a very good growth in every single market. We improved our metrics. More notably, we improved our loss ratio in United States. And overall, we feel we have a more positive outlook of the market compared to the last couple of years, a stronger foundation. And this puts us in a quite good position to continue to grow and to develop our business outside UK.

Thank you very much. I will now endorse to David to talk to you about other group opportunity and wrap-up. Thanks.

David Graham Stevens {BIO 6807391 <GO>}

Thank you, Milena. In my CEO comments on the release, I said that Admiral was ambitious in pursuit of immediate growth opportunities and long-term growth opportunities and my colleagues have talked to you about those immediate growth opportunities. I want to focus more on the longer-term growth opportunities.

We've invested around 3% of our profit during the course of first half, an initiative that are irrelevant in terms of returning to short term. But I think potentially, very, very important to the medium term and long term health of the business. And I've chosen three examples to talk to you about today.

Admiral Loans. In the first half of 2017, we originated our first loan on a dedicated end-to-end mobile-friendly loan system. We are currently active in a very small way on Price Comparison sites offering a fairly vanilla unsecured purple lending product to prime and near-prime customers. But we are laying the foundations for a healthy long-term business, good team, good system, looks like a good expense base that's going to be built here. It looks like a good response from the Admiral customer base to the loan product. So, very encouraging.

Another thing we've been working on is offering nontraditional forms of car insurance. Vast majority of the UK market is very happy with car insurance as it stands. But there are some people with more specific needs. One example of that is a site we've opened up for people who have short-term needs, one hour to 90 days. Learner drivers who want to do lessons (42:05). People who haven't got a car, they've got a license in their car, they want to use their friend's or family member's car. That space is growing faster than we anticipated; the acquisition cost improving better than we anticipated.

There are a number of (42:15) brand to a start-ups in this sort of space. It's very hard to know for sure get market data but from the data we can get, we think we're substantially bigger than any of those brands in the short-term insurance market. And more encouragingly, this product is bringing new customers. The majority of the users of this product are new customers to the Admiral Group. Now, last of the initiative I'll highlight is expansion into other areas of non-life insurance.

So, we've gone from cars to home, from home now to van. Before the end of the year, we will be launching a travel insurance product underwritten by Admiral as well. Now one of the key questions is how do we make sure we don't go from being a company that's excellent in one or two products to being mediocre in a number of products. I think the key to that perhaps will be to maintain the elements of our culture that are key to our success in the past and will be key to our success in the future. Which elements am I referring to? There's a lot I could talk about. I could talk about frugality, talk about commitment to finding a way of doing better by the customer in any market we enter. I could talk about data-driven decision-making. But I've chosen to talk about three elements of our culture, which is the three that I talk about when I stand up in front of new members and staff, as I do, all new members and staff in Wales (43:32).

The first one I talk about is people who like what they do, do it better. We want our staff to enjoy what they do. That's important. The customers feel that when you call and make a midterm adjustments. You can hear it on the end of the phone. But it's also important in terms of keeping our staff. We have excellent retention. Lorna talked about the quality of some of our claims handlers. They've been with us for a number of years. They will stay with us because they enjoy working for us.

It's also important in terms of attracting good new employees. The loan team is a mixture of long-term Admiral employees and high-quality experienced lending managers who have chosen to join us. And one of the reasons they've joined us is for the culture.

The second point I'd make to everyone is we want people to feel like they own the business, so we make them owners. So, when you're having that phone call with someone to do a midterm adjustment, the person that answers your phone 20% their remuneration is equity and it's Admiral share. Their manager, team manager, completes (44:29) 33% of their remuneration is equity.

Why do we do that? We want people to care about the outcomes of everything they do for the company. We want them to care about making sure the customer has a good experience, that we don't waste money. We want them to be adaptable to change. And we want to encourage – very important in the context of new product – cooperation across the whole of the group.

We're big believers that there is a good payout in terms of cooperation, car insurance can learn from lending, and lending from loans into car insurance. House insurance can benefit from sharing with travel insurance and vice versa. That common ownership and interest in the shares is important.

And that's also reflected in the last point we make, the team, the team, the team. It's all about cooperation. At Admiral, you don't get on by elbowing your way past your colleague, you get on by finding ways of cooperating with them. So, those are the elements of culture among others that we think are key to helping us in the long-term (45:26).

Thank you, and I'll open it up for questions.

Q&A

Operator

A - David Graham Stevens {BIO 6807391 <GO>}

Here's the microphone. Thank you.

Q - Kamran Hossain {BIO 17666412 <GO>}

It's Kamran Hossain from RBC. Two questions. The first one (45:47) it feels like you're doing a lot outside of UK motor. There's lots of things you've done in the past, but you seem to be mentioning more and more new initiatives. Do you think on the UK motor side, we're kind of at the peak of where you could be on the market share? That's the first question.

And the second question, in terms of the expansion into new products, you mentioned 3% of PBT at the first half. What should we expect going forward of that? Thank you.

A - David Graham Stevens {BIO 6807391 <GO>}

In terms of cost savings, we have something similar going forward, that sort of level. In terms of long-term prospect, the UK Car Insurance, Cristina?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. I don't think (46:23) pricing trend and cost control aren't still – (46:27) some of the leaders in the market believe we can still grow. I think if we look long term 20, 30 years, there's a lot of pressure about the size of the market, but that's the type of timeframe we're looking at.

When we look about initiatives on other products, we also think that we can give a better offering to our customers. So, when we offer a car and then a multicar policy partly because we learn more about the customer, we can offer a better price. And that similar things we want to do with our household, our van and our travel offering. It's just to offer a multi-cover propositions to the customer.

A - David Graham Stevens {BIO 6807391 <GO>}

We come in and go across, this gentleman at the front.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks. Thomas Seidl, Bernstein. Three questions. First, is on pricing. In the UK you mentioned, you put through price increases in December, also year to date but average prices per car seem to be flat year-on-year. So, does it mean you changed the mix or how would you explain that?

Secondly, on capital guarantees, that it feel strong on Solvency 2 standard models, so why withdrawing from giving back extra capital just because you delayed the internal model a couple of months?

And thirdly, on the compare.com in the U.S. If I'm not wrong, the carriers you have listed up for compare.com are stable. So you have signed up a new carrier recently and may have even lost one or two if I'm not wrong, so the question is, is this business then now based on keeping the carrier stable and you have just played advertising and the conversion thing or are you still hopeful to increase the carrier?

A - David Graham Stevens {BIO 6807391 <GO>}

So we do that in order, and Cristina will take the first one.

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. So, yes, the mix has changed. First, I think, we need to say that when you put a price increase you shouldn't see translation fully of that price increase because there is normally a change of mix. But in the case of what we have been doing in the past few months, there has been a change against some of the larger segments exposed to the other chains (48:37).

A - Geraint Jones {BIO 19738535 <GO>}

Capital, so, I think, it's fair to say that 214% is not the long-term sort of level we'd run after in terms of solvency. I think I'd almost say exactly the same as I said six months ago. We think it's appropriate to wait until we get certainty over the internal model position before we commit to any potential returns, the surplus that might exist at that point. And the reasons for that are the position, obviously we have a clearly good idea of what we think the position is and should be. But it's not fully in our control. So, we think, it's appropriate to wait until we've gone through that process, get that certainty. And then we'll also communicate a potential return to shareholders at that point. I might also point to uncertainty of the Ogden consultation, where that might go taking the respective PPOs and the impact they might have on capital, but the internal model certainty is the key.

A - Andrew Rose {BIO 18735195 <GO>}

And on compare, we do continue to add carriers. We do continue to add carriers states. Because of the 51 discrete markets, a lot of it is less about adding specific new carriers as to getting density in specific markets. And some of what we're doing is mining our existing carriers for additional state opportunities. But there continues to be carrier additions as well as product extensions moving into home rent or condo to complete the bundling part of the portfolio as well.

A - David Graham Stevens {BIO 6807391 <GO>}

We'll take it from there, back of the room (49:58) then we'll come across.

Q - Ravi Tanna {BIO 16926941 <GO>}

Thank you. It's Ravi Tanna from Goldman Sachs. I have three questions, please. The first one was just on the Admiral Loans venture. Historically to me, it's a potentially quite capital-consumptive initiative, and I was just wondering if you could elaborate on thoughts around that and the shape of the group from a capital perspective has that built on? I know it's early stages at the moment.

Second one was on the capital front. It's more a point of clarification really. Can you give us a sense, when you talk about being comfortable with the internal model, does that mean when you get approval? Does it mean when you make the application, or does it mean some point in the interim? And, secondly, why have you kind of expanded the scope at this stage to include the capital risk module?

And then the third and final one was just on small bodily injury claims. The slide 20 chart showed quite a big drop-off in claims through the portal. Last time you experienced that (51:01), it took quite some time for the favorable reserve releases to flow through. I was wondering if you could comment on where we are in that journey this time around. Thank you.

A - David Graham Stevens {BIO 6807391 <GO>}

I'll do loans and reserves moving through and Geraint will do the two capital points. On loans, at the moment, the size of the loan business is immaterial in terms of balance sheet strength. Our heritage as an insurer is to establish good underlying economics there and then partner with reinsurers who provide capital support to our initiative. Our hope is that we will demonstrate that, the good underwriting economics and be able to partner with external sourcing of capital to achieve some efficiencies there.

In terms of the impact of the fall in small bodily injury on (51:48) it is the case that when we report profit, we tend to book profits that are functionable and two or three years ago. So, you would not expect any Admiral way of reporting profits. But the surprisingly low probably newer frequency between the first half would necessarily immediately, et cetera. Geraint?

A - Geraint Jones {BIO 19738535 <GO>}

Timing, so, we expect that the application will be in the latter part of 2018. So, some we'll record in the fourth quarter. I think a very good process would take six months with the regulator. I think it's unlikely that we would commit to any returns as the application goes in, I think that's probably premature. At some point, after a master approval is given, we're certainly going to get a lot of clarity on the position, I think before we communicate further on potential returns or surplus.

And the scope, there are a large number of reasons and, I think, over the past year or so, it's become reasonably clear to us that the Standard Formula doesn't (52:45) particularly well with very volatile interest rates and particularly the only environment we've been in. So, that's one factor. We think, actually, there's quite a lot of interaction between inflation and interest rates and insurance risk as well.

And, I think, to probably capture those, we believe that we need to develop a better market risk model, but also regulatory interactions, considerations as well. So, we think, it's appropriate to go with a more complete model rather than go with the first application and then go back 12 months later, and then 12 months later and then 12 months later saying, can we have this bid, can we have that bid, can we have the next bid? So, we're trying to balance between getting the model approved and getting it used as quick as possible but also getting a robust as possible model in at first application.

Q - Ravi Tanna {BIO 16926941 <GO>}

Thank you.

A - David Graham Stevens {BIO 6807391 <GO>}

Now, very unusually we actually have a question coming in from outside, from the call. Do we know how to – this is so unusual. I'm maybe sure on the logistics. How do we handle that? Okay. We'll take that question after this one, if we can sort out how to take it. I'm going over there.

Thank you. (53:54) from UBS coming through. Two follow-up questions on UK motor pricing, please. Firstly, going back to the original question, your GWP was up 7%, (54:03) was up 7%, yet you indicated to us six months ago that underlying claims (54:10) was kind of tracking 3%, 4%, 5%, (54:13) 8% to 10%. So, can you just square that a bit and then give us some indication of what the risk adjusted price increases were during the period?

And then, secondly, when we look at your slide around the competitiveness of UK motor, it shows it's falling and then obviously coming back as other people are pricing up, but it's still below where it was end of last year. So, can you give a bit of commentary around, has therefore your products (54:38) account started to improve towards the end of the first half into the second half?

And then also can you comment on your gross versus net in terms of price? You said you may have adjusted for net pricing now, but do you need to put prices up further to fully cover Ogden on a gross basis? Thank you.

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. So, what we have done so far this year is take into account the full extent of the Ogden change and the full impact in our book. And that means, gross (55:10) expect to do is that if there is no further clarification from the Ministry of Justice of how (55:17) going to change going forward if we stay at the same level as we have today, we expect the reinsurance to adjust the pricing level quite significantly. Indeed, program that is going to start next year.

And I think both Admiral and the rest of the market are going to adjust their prices in January next year to reflect to what we have done already. It is taking into account our current program, adjust the price. So, Ogden is fully embedded in our pricing increases. And we have taken also some steps regarding the inflation. Remember, prices have gone up since March this year, but they had also been going up quite substantially last year. And that today we're already reflecting the increase in negative inflation in the prices. Also, at the moment, even though there was a significant increase in March, we're seeing that the market continues to (56:05) month to month. So, it's not yet clear whether this is going to change.

Q - David Graham Stevens {BIO 6807391 <GO>}

Okay. Great.

Fine. Thank you. Building the suspense.

Operator

We have a question on the phone lines from Andy Hughes from Macquarie. Please go ahead, Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. It's Andy Hughes. It's good to know I'm still asking difficult questions. So, (56:40) question about the ultimate loss ratio movement, the projected ultimate one from the end of the year to the first half. If we look at 2014, it's 74% in both cases, 2015 has gone from 76% to 77%, meaning neither of those years has particularly moved very much due to the impact of Ogden, or maybe it was already factored into the ultimate best estimate loss ratios.

And I guess what I'm interested in is, the ultimate best estimate loss ratio, is it developed positively in the past? Presumably some of that has been because you've settled things at 2.5% rather than that, yeah, the implied rate in the reserving and in the ultimate best estimate. So, I'm curious as to how much impact that had in the past as you settle those claims through.

And I guess the point that Lorna made about how these claims are settled and how you have an advantage that's even stronger going forward post Ogden than you had before are what you saying that these debates are really about the quantum? So, you sit in the room, you say, okay, this claim is £5 million and then you allocate it back to the different lines. So, actually when you've changed the Ogden discount rate, maybe then you sit down, you have a different conversation, but it's not quite the same as saying what we played last year has gone up by the impact of the Ogden discount rate. Thank you.

A - Geraint Jones {BIO 19738535 <GO>}

I'll take the first one on ultimate. So I think the question was relative to the comparison of the June 2017 position against December 2016. And what I said earlier was we've seen general stability in those projected ultimate loss ratios apart from some recently small movements including the small improvement on 2015. The position at the end of 2016 did include the rebasing of those ratios for the minus 0.75% rate. It's actually the process we've gone through since we reported our results in March. It's obviously put the impact of that minus 0.75% through the case reserves. And then mostly we projected the ultimates at the middle of the year and so we've seen stability in that context which we think is actually a pretty positive outcome. But the December 2016 numbers did include minus 0.75%. (58:49).

A - David Graham Stevens {BIO 6807391 <GO>}

And in terms of big bodily injury settlement, Lorna (58:55).

A - Lorna Connelly {BIO 19791125 <GO>}

I think one of the (58:55) to make on the – is even more valuable than – if we can get a case where I think the easy example is (59:01) fails to wear a seatbelt and has been bodily injured. And they are arguing a 10% to 15% contribution on that. If it's 10% to 15% of the £3 million claims originally, almost 10% to 15% of the £5 million or £6 million claims under the new rate, then investigation is even more important to be able prove that. And that currently is even more into play when you have things like contributions with people getting into cars and direct drivers, that kind of things.

So, I think our advantage there is being able to look at things like CCTV and establish relationship throughout the (59:29) just be able to show that one driver was actually with that passenger. So, at the moment, neither be drinking is (59:34) quite helpful.

When it comes down to settlements on these types of claims, (59:40) few weeks ago. And the lawyer starts off by saying that I need to talk about what's the (59:46) rate. And our approach to that will be, well, we're not going to talk about rate, we're just talking (59:52) what we think this claim is worth. And that has been our approach so far which seems to work on these claims whether it's contributing negligence. We don't get anywhere. We are absolutely 100% at fault.

A - David Graham Stevens {BIO 6807391 <GO>}

Thank you.

Q - Andy Hughes {BIO 15036395 <GO>}

Thank you.

A - David Graham Stevens {BIO 6807391 <GO>}

(01:00:11).

(01:00:15) two questions from me, please. So, just to be clear on the rates, you've said that your competitiveness has now improved since March. Does that mean that you're increasing rate in line with the market or below the market now? And then just on the commutations, I note there was no commutations in 1H presumably from the 2015 year. How do you think that will develop? Are you waiting maybe a little bit longer to see how Ogden impact that, or what's the reason behind that? Thank you.

On the rates on page 13, I think the page it shows Admiral's Times Top, it tells the story really of a situation where our rate increases were earlier and substantial. The market then moved up substantially in March. It has continued to move up. We've also moved up. We are less competitive than we were a year ago. So, by implication, our rates increases versus a year ago been higher than the market, which is not irrational in the context of a temporary competitive disadvantage due to the impact of very different insurance structures during 2017. In terms of commutation?

A - Geraint Jones {BIO 19738535 <GO>}

Commutations, basically, answer the question I think I said normally we would commute 2015 in the first quarter of this year and that decision point coincided exactly with the point in which the new Ogden rate was announced. And so, even though we were projecting that 2015 would remain profitable at that point, it didn't feel appropriate to commute cover £1 billion of reserves for the year at that point.

In terms of what we do in the future, it will depend partly on what comes out of Ogden. The consultation, I'd expect that we would commute it (01:01:51) – it appears to us to be very profitable underwriting it. So, I'd expect this to commute (01:01:56) some point, but clarity on the Ogden consultation will be the key endpoint into that claim.

Q - David Graham Stevens {BIO 6807391 <GO>}

Okay. Thank you.

Thank you. (01:02:04). Thank you.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Thank you. Dhruv Gahlaut, HSBC. Three questions. Firstly, the reinsurance contract would come to an end next year. You're fairly confident, you guys last time when you presented in terms of nothing should change. Is that still the view on those reinsurance contracts? Have you started engaging with both partners. And then, do we have more?

Secondly, on the U.S. aggregator business, could you remind us how many states now you guys are breakeven in the first six months of this year? Also, what are the number of panel players you have currently? Similarly, for the French aggregator business, if you can note how many players, panel players are there on that website and has players like AXA fully engaged with you guys there? Thanks.

A - Geraint Jones {BIO 19738535 <GO>}

(01:02:54). We expect to get into negotiations and discussions on expanding those contracts beyond 2018 in the UK shortly. We've had some discussions with some of our partners, and we believe that the conversations will be very similar. For your (01:03:09) interest there, we expect to be able to renew those deals if we want to on at least comparable terms with the current contracts.

A - David Graham Stevens {BIO 6807391 <GO>}

You do the U.S. and I'll do France.

A - Andrew Rose {BIO 18735195 <GO>}

Most of the states that we were aggressively advertising in, we were better than marketing breakeven. It was north of 20-plus states. There were a variety of states that we don't have a panel that would be sufficient for us to aggressively market. So, some months those would be profitable, some months they wouldn't, but it wasn't relevant in the overall scheme of things. The number of carrier is north of 60 contract signed and they bring north of 100 brands.

A - David Graham Stevens {BIO 6807391 <GO>}

In France, the engagements of the traditional players is mixed in contrast say with Spain or the UK. So, the big mutuals don't tend to engage in Price Comparison with the exception of (01:04:07), who was the market leader, and is now a distant third, which is owned by the big mutuals. AXA itself is an important panel player under its Assurance (01:04:16) direct brand.

Q - David Andrew Bracewell {BIO 16394801 <GO>}

Hi. It's David Bracewell here from Redburn. Just a couple of questions on the U.S. Price Comparison business. You gave some stats on, I think, click rates. So, the number of clicks are going up significantly. But I just wonder if you could perhaps give us some absolute numbers or some indication of what perhaps your market share there is of the new business?

And then, a kind of a follow-up question to that really is given the combined ratio in the U.S. has increased significantly and the pricing of those, as far as I'm aware, has increased significantly. I'm just wondering if that led to significant increases in the churn or in terms of new business churn rate and if that's helping you to grow business in the U.S.? Thanks.

A - Andrew Rose {BIO 18735195 <GO>}

For competitive reasons, we haven't released absolutes and we choose not to. From an overall market share standpoint, we remain quite small. As far as the aggregator markets, we remain quite large. So, it's sort of on the overall scale of things there. I come back to the 51 discrete markets. The dynamics in the markets are highly variable. You will get some states, Georgia, California, as an example that have proven to be very volatile in the last six months. Carriers coming in and out with appetite. People feeling like they got their rates adequate and then others feeling inadequate. So, the panel will move based on competitiveness there and the consumers shop in response to what the carriers are doing. If they are raising rates, you'll see more shopping in different markets, but it's a state-by-state phenomenon, in some cases, it's a city-by-city phenomenon.

Q - David Andrew Bracewell {BIO 16394801 <GO>}

Thank you.

Q - Andreas Evert Cornelis van Embden {BIO 1795530 <GO>}

Andreas van Embden, Peel Hunt. You mentioned in your press release, a reduced level of relative reserve margin strength in UK car. Just thinking about Ogden and assuming no change in Ogden. Future reserve releases, would that really be driven by the improvements in the ultimate, going back to the 2% to 3% per year which you showed in the past, and you want to keep you reserve margin where it is today or will it again be a combination of both? Thanks.

A - Geraint Jones {BIO 19738535 <GO>}

The relative size of the margin has come down since the end of the year when it was basically at its peak largely because of Ogden. If Ogden stays the same, minus 0.75% and nothing else changes, then we would expect significant reserve releases because the margin we have is significant. So, we unwind that margin as we move towards the ultimate outcomes, obviously gets released into the income statements. And the best we should do is that the margin gets (01:07:04).

In terms of the direction it goes in the future, it's difficult to comment because it obviously depends on conditions and circumstances at that point. We said in the past that we will expect to live in the middle of our range, kind of tolerance is in the range (01:07:16). But the end to the year, we were at the (01:07:19) top end of it and we move back down towards the middle of it. So, where it goes in the future will obviously depend on circumstances at that point. But I would expect our reserve releases to run well ahead of 2% to 3%. That was much more of a market in a perfect world than (01:07:32) Admiral.

A - David Graham Stevens {BIO 6807391 <GO>}

We missed out the very back, and we get moved back (01:07:36), at the very back and then we got one more after that, which we'll come to the front.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Good morning, it's Andrew Crean, Autonomous. Couple of things. Could you say what's happened to the Ogden reforms? And there's a number of dates, early August suggest it's for a release from the independent commission.

And secondly, could you talk a little bit about your diversifications over the years. Clearly, I can see that you're trying to build a big business, which rivals that of UK motor business. You had been active since 2006 in some cases. At what point do you say we are not going to create a great business and perhaps pass it on to somebody else?

A - David Graham Stevens {BIO 6807391 <GO>}

The first question, Andrew? Ogden, yeah. Okay. So, Ogden is in a state of flux. The government realizes that they – it was a bizarre and eccentric decision and that was reflecting the fact that immediately, that they announced it back that they were reconsidering it. They were then due to announce the results of the consultation, not the results, but some feedback from the consultation in early August; it may happen as yet.

The general view of the market appears to be somewhat optimistic about a move towards a more rational outcome on Ogden. I think the challenge and that's reflected I think, for example, in the number that Esure gave for the increase in its excessive (01:09:00) loss, which to me was implying that reinsurers felt that some will become set back.

The challenge is the government's ability to deliver on legislation at the moment. And, therefore, I don't think anyone should take it for granted that there will be an improvement in the Ogden situation in the current parliamentary concept.

In terms of investments, I think it would be bizarre to step back our investments in our international businesses and compare time when they seem to me, on the cusp of actually really demonstrating long-term value for the group. I think the profit number is only a partial reflection of what we're building.

In the international insurance business in Europe, when you take into account the growth of the business at the time of the cycle and the fact that we are introducing more caution and more reserve redundancy in France and Spain, we're very, very close to something that is clearly valuable in profit terms and even more valuable in underlying capital accumulation.

Compare looks like an exciting business where if you look at the £6.5 billion being spent on marketing, if we can only get 10% of that marketing spend switching into Price Comparison, it's a huge opportunity. One thing we've certainly learned in America is that it isn't easy to do Price Comparison. So, there's a really defensible position if and when we make a success of it.

So, I think, there are lots of exciting things going on. I think loans is a huge potential business that gives us diversification for 15 or 20 years' time when autonomous vehicles might become a threat to the core business. So, I'm very positive about what we do and I recognize shareholders – we've been asking shareholders' patience in terms of return, in terms of profit. But I think ultimately, they will prove their value for the group.

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

Good morning. Greig Paterson, KBW. Just three quick questions, one is on van. I wonder if you – I don't know if we put a net premium number, in other words, if you converted your entire stock. How much should we add to the net premium by the end of the year for that?

Second point is, in terms of written – difference between booked and ultimate from 1H for 2017. I wonder, have you increased or decreased that official margin versus the 2016 booked?

And then, the third one, usually, there were three questions on rate. Usually, you provide some kind of number on rate. So, let me try again, if you look at June year-on-year rate, assuming no change in mix. What would be the number? And then if you adjust it for the fact that your renewal business has increased relative to your new business, what is the effect of rate that you get at least?

A - David Graham Stevens {BIO 6807391 <GO>}

To the van, Cristina on the rate as well.

A - Cristina Nestares {BIO 18674745 <GO>}

On van, I think, the best way to look at it, is that we have the size of the workable component, 75,000. And we're going to migrate the book starting mid May. So, if we manage to recreate all the book and has seen it could have (01:12:07) similar size, it will be seven months of the year, through June to December. And the average premium that we have at the moment is quite similar to the one that we have in car.

A - David Graham Stevens {BIO 6807391 <GO>}

North of £500 but not much.

A - Cristina Nestares {BIO 18674745 <GO>}

Yeah.

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

(01:12:21).

A - Cristina Nestares {BIO 18674745 <GO>}

But only seven months of the year in our book.

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

(01:12:24)

A - Cristina Nestares {BIO 18674745 <GO>}

And we probably consult. So, at the end it's more or less (01:12:30).

A - David Graham Stevens {BIO 6807391 <GO>}

And would you want to comment on rates again?

A - Cristina Nestares {BIO 18674745 <GO>}

I wasn't sure exactly, what the points are.

A - David Graham Stevens {BIO 6807391 <GO>}

I think Greig is after precise number in terms of...

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

To use your technical terms, what was your base rate increase in June year-on-year, and then how much was that distorted by the fact – when you actually look at the effect of rate that came through, how much was that distorted by the fact that there was a reduction – increase in your (01:12:58) business. And so that we've got a number that we can actually put through the loss ratio effectively and the June one to be (01:13:02).

A - David Graham Stevens {BIO 6807391 <GO>}

I think our base rate on average across (01:13:08). And that the change in average premium is mostly a reflection of mix within new business but partly a fraction of an increase of (01:13:19). The middle question, I think Geraint question, was it?

A - Geraint Jones {BIO 19738535 <GO>}

What was the question?

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

So, let me retake the (01:13:27). If you look at 2017...

A - Geraint Jones {BIO 19738535 <GO>}

Ah, sorry if (01:13:30).

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

Booked versus ultimate on a written (01:13:32) basis, what was the official margin there? And have you changed that from what you booked in the last year (01:13:39)?

A - Geraint Jones {BIO 19738535 <GO>}

I'm not sure we actually give you any of the numbers to get to that official...

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

Well, I can look at it at the end of the year. Just wondering where we are at the half year.

A - Geraint Jones {BIO 19738535 <GO>}

What we said about the margin is in relative terms it's decreased. We think about margin across all of the reserves not just by underwriting here. In general, the more recent the underwriting here, the bigger the margin is. We haven't fundamentally changed that approach at all. But the relative size of the margin is less now than it was six months ago but it remains significant.

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

That's the official margin, or the margin included in your ultimates as well?

A - Geraint Jones {BIO 19738535 <GO>}

We don't give any clarity on these (01:14:11) margins -sort of best estimate...

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

(01:14:14).

A - David Graham Stevens {BIO 6807391 <GO>}

(01:14:16) apologize but as you didn't manage to make the call. (01:14:18) for around briefly but we'll follow-up (01:14:22). Thank you all for coming. See you in six months.

Operator

Ladies and gentlemen, thank you for joining the Admiral Group Plc 2017 Interim Results. The call has now finished and you may now disconnect your lines.