Q2 2015 Earnings Call

Company Participants

- Alistair Hargreaves
- Cristina Nestares
- David Graham Stevens
- Geraint Jones
- Henry Allan Engelhardt
- Pascal Gonzalvez

Other Participants

- Alan G. Devlin
- Andrew J. Crean
- Andy Hughes
- David A. Bracewell
- Dhruv Gahlaut
- Fahad U. Changazi
- Greig N. Paterson
- Janet Demir
- Ravi Tanna
- Simon G. Denison-Smith

MANAGEMENT DISCUSSION SECTION

Henry Allan Engelhardt {BIO 3022947 <GO>}

Good morning, everybody, and welcome to Admiral Group's 2015 H1 Results Announcement. I'm Henry Engelhardt, still Chief Executive. And I'll be joined today by Geraint Jones, our CFO; Cristina Nestares, who runs our Spanish insurance business and will soon be relocating to the UK to take on senior responsibilities within the UK insurance business; Pascal Gonzalvez, who is the CEO of our insurance operation in France, L'olivier; Alistair Hargreaves, who runs non-claims operations in the UK; and last but certainly not least, David Stevens, CEO in waiting.

Geraint and I will give you an overview of the results and go into some detail on activity in the U.S. and Italy, followed by Cristina and Pascal, who will shed light on our operations in Spain and France. Alistair and David will then speak about the UK. And after all that, we'll be happy to take your questions.

It was a pretty good start to 2015 for Admiral Group. If it's a game of two halves, then we're glad to go into the locker room in front. The highlights were back year claims trends in the UK and Italy, the growth of our price comparison businesses in Spain and France, and the progress of compare.com in the U.S.

As you can see, all the key indicators are up except return on equity, which is still very robust, just slightly less robust than a year ago. In particular, I'd like to direct your attention to the dividend numbers. On last night's closing price, this represents a yield of around 3.5%. That's not an annualized number. That's actually the half-year yield.

Group turnover is on the rise. It's worth pointing out that the non-UK turnover figures are heavily influenced by changes in currency rates. Our dollar turnover is flattered by the change in exchange rate, while the euro turnover is depressed. We'll try and show you all the figures in both sterling and local currency, so you can get an accurate picture of what's really going on.

Price comparison turnover. Price comparison turnover is down and this is solely due to Confused as our other three PC sites increased their turnover. But as I said, these figures are also influenced by exchange rates. Other turnover is largely Gladiator commercial and our household business in the UK, and the big growth number is more due to the latter than the former.

Customer numbers do not carry the same currency computations, and as you can see, there is a green shoot of growth in the UK and decent growth elsewhere throughout the organization. We're seeing some rate increases in the UK car insurance market, which will give us the opportunity to leverage our combined ratio advantage, and while raising our rates as well, do so slightly less than the market, and in turn, grow the business. Alistair and David will talk more about this in just a few minutes.

We're also seeing steady growth outside the UK with L'olivier, Elephant and ConTe all in growth mode. And in line with turnover, the growth in the UK household book was substantial. The household results also continues to go well, aided by the lack of severe weather in the UK.

Now, over to Geraint to give you some more detail on the group results.

Geraint Jones {BIO 19738535 <GO>}

Thanks, Henry. Good morning, everyone. I'm going to cover the group results, Solvency II and capital, our interim 2015 dividend and then do a really quick overview of the UK car insurance result.

First up, group profit. As you saw on Henry's slide earlier, the pre-tax profit for the first half was slightly higher than H1 last year at £186 million. That is a record H1 result and is very close to our biggest ever six month results.

So what happened? Well, as you can see, there were quite a few movements, which have essentially almost entirely offset each other. UK car insurance business result was very strong, nearly £220 million. That's 6% up on last year. As we'll see later, that result was helped by a very large reserve release. In international insurance, it was very positive to see the loss reducing in total and very pleasing to report another small profit at ConTe, which I'll talk a bit more about.

The price comparison result is heavily impacted by increased investment in compare.com in the U.S. and that accounts to £10 million of loss in this year's figure, more on that later. And finally, the catchily titled, Other, which is mainly made up of our share scheme costs, and the difference you see there to the last half year is mainly the debt interest cost, which obviously wasn't there in H1 2014.

Next up, on earnings per share just briefly. As you can see, nearly £0.55 per share in the first half of the year. That's 4% up on 2014, and is a record half year EPS figure. On the right-hand side, you'll see the full annual history since flotation. Hopefully, you'll agree it's quite a nice long-term track record.

Moving on to Solvency II and, in particular, capital requirements. Let me firstly deal with the 2015 situation, which will hopefully be familiar to you. Our group capital requirement this year as agreed by the PRA under the ICAS rules and after accounting for our half-year dividend, we show a similarly large level of surplus against that requirement compared to six months ago. That's in excess of £300 million.

Why such a large surplus? Well, as you might expect and as we've said before, that's about us wanting to remain prudently capitalized until our situation from January 2016 has resolved. The top of the slide there also shows a couple of the KPIs of the half-year point.

Onto the more interesting bit, 2016. In common with most or probably all UK insurers, we're not yet in a position to communicate the exact level of 2016 capital requirement. As you know, it'll be based on the Standard Formula to us rather than an approved internal model and a capital add-on is very likely to be applied to reflect limitations in that standard model when applied to Admiral. And I think we've said before, the main issue there relates to profit commission arrangements in the co- and reinsurance contracts, which aren't probably dealt with in the Standard Formula.

Constructive discussions are ongoing and the PRA will take a view on the add-on that we think is appropriate, shortly. We expect the process of formalizing this to conclude in the last quarter of this year and we'll communicate when we get the confirmation. Plus, we'll give much more detail in our 2015 results presentation in March 2016.

Bear in mind what I've just said, at this point, I'm not going to talk about what the outcome of that process might be, what Solvency ratios we expect to see, whether there's a surplus and so on. But I promise, we'll speak a lot more about capital in March 2016.

Moving on, let's take a closer look at the interim dividend. We're paying £0.51 per share, which is 3% higher than 2014's interim dividend and that's a record half-year dividend.

£0.51 equates to a 93% payout ratio, and we've calculated this dividend on the basis of maintaining a stable payout ratio and a consistent surplus against the ICAS requirements, whilst the uncertainty I referred to on the previous slide remains in effect.

In the chart, you see an enviable track record of dividends since flotation. If you add up all those dividends, apply them to all those shares, we paid out approaching £2 billion over the past 10 years or so. That's nearly three times the value of the company when we floated in 2004.

If you overlay earnings per share, now you got a good perspective on how much of our earnings we were able to pay out in dividends. So let's do that. As you can see, consistently high payout ratios over time, divide total dividends per share by total earnings per share over that period, then you get a cumulative payout ratio of 93% in earnings. If you don't have any shares, you could get some by September 10 to get the payments, which is on October 9.

Next up, I'm going to do a really quick one through the UK results before David and Alistair go into more detail in a short while.

The first chart at the top shows the UK car insurance pre-tax result for the last three half-years. Steady increase at each time, reaching £219 million in the first half of this year. The higher result was mainly due to significantly higher reserve releases, which were made possible by substantial improvements in the projected ultimate loss ratios across a number of our underwriting years.

Reserve releases on Admiral's share of the business equals 29% of net earned premiums. That's up from 19% last half-year. It's important to note, though, that despite that very large reserve release, the margin held in our book reserves above the actuarial best estimate increased slightly at June 30, compared to six months earlier.

In terms of customers, turnover, premium is written on the bottom half of this slide, I think especially exciting to report. We saw a small but pleasing increase in the number of vehicles insured. And despite continued rate increases in the first half of the year, total premiums remained pretty flat, and the portfolio moved again to be more weighted towards renewal business, plus there were some other shifts towards lower premium business.

As I say, David and Alistair will be up here in about 15 minutes time. So I won't dwell anymore on the UK. In the meantime, back to Henry.

Henry Allan Engelhardt {BIO 3022947 <GO>}

Thanks, Geraint. Overall, it's been a good six months for our price comparison businesses. Within that, however, Confused continues to struggle in the light of competition. The BRIAN Toy campaign – anybody bring a BRIAN Toy with them? No, not yet – is going well, and we've seen a small uplift in share and a decent uplift in awareness. However, the toys do cost money, and this has hit the bottom line. Rastreator and LeLynx continue to lead the Spanish and French markets, respectively, and I'll leave it to Cristina and Pascal to talk more about these market-leading operations in a minute.

We're very pleased with the progress of compare.com. The main area of success in these last few months has been signing insurers to join the panel. We now have well over 50 insurers signed up. We have over 30 insurers actually on the panel and are in the process of on-boarding the remaining 20-plus insurers. These 20-plus companies are all signed to contract, and as soon as we can complete the IT connection, they'll be active members on the panel.

We now have four more insurers quoting in more than 25 states, representing more than 70% of the U.S. population. While we are busy on-boarding insurers, which will be the major feature of 2015, we have pulled back a bit on our marketing budget. We're spending a lot more than we spent in 2014 but not as much as we envisaged.

We've done this to keep some of our powder dry until we are confident that we'll be able to provide virtually every consumer with a good experience, which in large part means providing several prices at the end of the process. As we're growing the number of partners and also the states in which the existing partners currently quote, we anticipate a bigger advertising spend towards years end and into next year.

We have previously given guidance that we thought compare.com would cost the group somewhere between £20 million and £30 million this year. And it appears that due to spending less on the advertising than anticipated, we will not be at the upper end of that range.

This slide gives some detail on the non-UK insurance businesses. As we said before, this is the year we hope Admiral Seguros in Spain breaks even. With that being the goal, growth is not important. In fact, as Cristina will explain, growth is expensive and so actually counterproductive to breakeven.

So far, we are on pace to breakeven but it won't be easy, in particular, because there are changes coming to the Spanish bodily injury protocol, Baremo, and they will increase claims costs attached to the 2015 business. In all the other countries, we're growing at a nice pace.

Let's take a closer look at our U.S. and Italian operations. I'll do the U.S., Geraint will do Italy. Six months ago, we explained to you very simply that the U.S. was a huge market and that we have fledgling European-style price comparison side, as well as an insurer currently trading in four site – at four states.

Six months on, nothing has changed from that description. Elephant is doing well, but life would be better if we had more price comparison business. Elephant is growing, but its costs are still high and bad weather, particularly in Texas, has meant stubbornly high loss ratios.

In short, things in the U.S. are progressing, but we expect the faster pace in the second half of the year and into next year. Geraint?

Geraint Jones {BIO 19738535 <GO>}

All right. Just a couple of quick slides on ConTe from me to finish off. First thing to say is that in 2014, it's very pleasing to report another small profit at ConTe, following on from a very similar result in 2014 as a whole. What's been happening with the top line customer numbers? As you can see on the left-hand side of the slides here, after seeing turnover reduce in H2 last year and basically flat vehicles insured, ConTe started to grow again in 2015, increasing customer numbers by 5% in six months and with turnover rising slightly versus H1 last year.

ConTe broke through this 300,000 customer mark a couple of weeks back and the business makes up just under 50% of the group's combined international insurance customer base. The Italian market has enjoyed some pretty positive results recently, especially in 2014. And those results have fueled some pretty strong competition in the market with material rate cuts over the past year or two.

ConTe has responded with the rate cuts of its own, particularly at new business. It was managed to keep the projected ultimate combined ratio for the 2014 year in line with the 2013 year. At some point, reasonably soon we would expect that rate cutting will move the market to uneconomic levels, which should be de-stabilizing and then rising rates in the market, which we look forward to.

Now it is accurate to say that ConTe's profits in 2014, and the first half of this year results from back year reserve releases. However, it's also worth noting ConTe's results on an underwriting year basis, which is what we see on the slide.

The chart shows the business combined ratio, taking everything into account, that's the motor underwriting and the other revenue on independently projected ultimate basis, and it's by underwriting year.

There are three lines on the chart, which show the projected results at different time periods. So the solid line is the most recent projection and the dotted lines show earlier points in time. For example, at the end of 2013, the projected final outcome for the 2013 underwriting year was 109%, and that's since improved to 103%. And you'll note that in general, the projected outcomes tend to improve over time. Though, of course, it's not always guaranteed to be the case.

Really pleasing to see that ConTe was actually profitable in 2012 and only its fourth full year operations. Milena's at the back of the room she'll tell you all about it on the way out. 2013 and 2014 are currently projected at 103%, which is not too far above 100%.

In its accounting results, ConTe follows the same philosophy as the UK business, it books initial reserves well above the actuarial best estimates. The margin is slightly bigger now than it was six months ago despite the release of the first half of the year.

And on an encouraging note from ConTe, actually, a lot from Henry and I. Henry's backup at the end to wrap up. Now we have Cristina and Pascal to talk about Spain and France. Thank you.

Cristina Nestares {BIO 18674745 <GO>}

Good morning, everybody. I've been working for Admiral for 10 years now. I launched the first international operation back in 2006. And after five years leading it, I was promoted to European Manager. And now in less than two weeks, I will be moving to Cardiff for its wonderful weather, but also, to start working in the UK business as Head of Motor. So let's take a look at the Spanish market. 2015 is clearly a transition year. We have been seeing premium decrease for more than seven years. And finally, in the first half of this year, it has started growing again.

There are clear signs of economic recovery. Fuel consumption, which is very correlated to frequency, is going up by 2% after many years of decreases and also current sales are growing by 20%. The market was profitable last year with a combined ratio of 97%. Well, actually, this market has been profitable for more than 10 years. But next year, there is going to be a significant change in the Baremo, which is a rating system that we use to assess BI claims. And there are two major changes that are going to happen. The first one is, in general, a higher payout for large BI claims. But secondly, there will be a more generous compensation for future loss of earnings because normally until now we didn't take this so much into account.

So for the future, we expect increases in frequency and a significant increase in BI cost, and we think this is going to make prices go up after seeing 10 years of no price increases in the market. And this is actually good news for both Rastreator and Admiral Seguros because price increases should stimulate shopping in a market where attention is very high and switching low.

Let's take a look at Rastreator. Rastreator is the market leader and actually, its advantage towards its competitor has increased during this first half of the year. While Rastreator has continued growing, while its competitors have shrunk. We have increased our media spend, resulting in more quotes, in more revenues and in an increase in brand awareness. Today, more than 90% of the Spanish will recognize Rastreator.

During this time, we have also continued improving our multi-products offering, and nowadays, more than 20% of Rastreator revenues come from products, which are different to motor insurance. That includes other insurance products, travel, utilities, and finance. Rastreator has acquired a URL, Seguros.es, which means insurance in Spanish because our strategy is to have two price comparison website in the Spanish market. This allow us to be much more efficient with our media spend. So for the future, we will continue making our multi-product offering bigger and better for the customer and we will continue spending on Seguros and Rastreator. Actually, we have already started putting some money behind Seguros.es as a TV campaign has started a couple of weeks ago.

Let's take a look at Admiral Seguros, but before I talk about the result, let me clarify terms because this might become a bit confusing. Seguros.es, that's a new price comparison website that we have acquired. Admiral Seguros is insurance operations that we launched back in 2006. Admiral Seguros has a very clear target for this year, to breakeven on written basis. And so far, things are looking good. Expenses, under control; claims numbers, favorable.

However, this is a business subject to claims. Therefore, there is a lot of uncertainties. And also, the changes in Baremo are going to put a lot of pressure on the loss ratio. Now during the first half of this year, we have continued growing, fueled by the growth of Qualitas Auto, our second brand. And for the future, we also expect to take advantage of the market growth that we expect to see in the market by lagging competitors in price increases.

Now, it is important to mention that the fact that we might probably breakeven this year, doesn't mean that we're going to be profitable every year after because we will grow when market conditions are good. So, in 2016, if there is a significant growth in the market, we will take advantage to increase our book, to increase our investment, and therefore, we report a loss.

So, all in all, I'll say it has been a very good half of the year for the Spanish operations. We have Rastreator being a more stronger market leader. We have launched a second price comparison website, Seguros.es, and our insurance operation is on track to breakeven. And for the future, more growth to come. I'll now leave you with Pascal to talk about the French operations.

Pascal Gonzalvez {BIO 19121456 <GO>}

Thank you, Cristina. Good morning, everybody. My name is Pascal Gonzalvez. I'm really happy to be here to talk about France, as we believe the French market is facing a point of inflection and is moving in the right direction.

And the most exciting news is that change of regulation that was implementing earlier this year. This new law is going to help customers switching and will make the motor insurance market much more fluid. In the past, it was very complicated for customers to cancel their insurance policy after renewal. Now they can cancel anytime and much more easily. As you see, the new insurers was dealing with the switching process. So, this is a fantastic new opportunity both for price comparison websites and for motor direct insurers.

The first few months of the implementation, I've shown some clear positive signs, and this is very encouraging because the law is going to be implemented over 12 months progressively on each anniversary renewal date. And the second thing is because the awareness and the understanding of the law are still limited. So, we're expecting the progressive growing power in this new regulation with an impact on market persistency.

One of the consequences of this change in the market is the growth of price comparison websites. In the first half of the year, we've seen the motor insurance quotes increasing by 17% compared to last year. And this trend should even be accelerated in the future as we're expecting stronger team investments coming from the aggregators. Not only we're expecting an increasing volume quotes, but it should also improve the new business conversions for direct insurers over time.

So, on one hand, there will be more credit in the market with an impact on persistency. On the other hand, there's some profitability problem in France with the profitability of the motor insurance suffering. Despite price increases in the past three years, we've seen the combined ratio worsening and is expected to be around 107%, 110% this year, and it's one of the worst in the last 15 years. So, we believe the underwriting cycle has got to harden, and the combination of all of this is a very good opportunity, both for LeLynx and L'olivier.

So, in this good context, LeLynx has decided to have a more aggressive strategy in 2015. We're doubling TV investments. And at the same time, we've been doing lots of PR to explain the advantages of the new law to customers, and this strategy has paid off. LeLynx managed to increase significant leads for the volumes and became the clear leader in the market with the highest level of quotes.

And at the same time, LeLynx remains a profitable business. So this strategy is going to continue in the next few months, with two main priorities, more education about the new law to the customers, and more investments in branding.

The timing of all the strategies in the market is pretty good for L'olivier. When we launched L'olivier a bit more than four years ago, we used a different business model. It was decided to outsource most of our operations in order to test and learn the French market. After two years, the experience was very positive with good technical results and a clear competitive advantage in pricing. So, we decided to in-source operations to make a true difference in this market.

2014 was dedicated to the in-sourcing of the business, and with Dave rightly deciding not to grow in order to focus on this big project. 2015 is now the year when we want to start and grow.

So, the first half of the year has been pretty positive with strong volumes and good claims experience. And for the next month, gross premiums are pro-rated. To do so, we want to build strong brand awareness and key investments that are actually starting next month. Our clear ambition is to become a well-known quality direct insurers in the next couple of years.

So, with the full control for operation, the cutting-edge IT system, and a strong management team, we believe we now have some strong foundation to take the most of this market opportunity.

So, to summarize, we believe that the dynamic of the French market is very positive. The new regulation, price comparison websites are growing, LeLynx educating the market and making profits, and L'olivier is now ready to capture those opportunity much more efficiently.

That's the end of the French section, and now we'll focus on the UK with David and Alistair.

David Graham Stevens {BIO 1990356 <GO>}

Thank you, Pascal. This is the exhibit that Geraint showed you 15 slides or so ago, and admirably concise summary of the UK market, outcome are in outcome. What Alistair and I are going to do is put a bit of color to that, the detail. I'm going to talk about prices, our own in the market, and I'm going to talk about claims. Then Alistair is going to talk about some of the other key economic drivers.

So, let's start with prices. This is an exhibit based on the ABI premium tracker, the most accurate source of pricing information, including new business and renewal. And the red line is the year-on-year increase, and the blue line is the cumulative decrease since the beginning of 2012. And what you see here is the market bottomed in quarter three last year to minus 14% from the beginning of 2012, and then started to put in some relatively modest increases so that by the end of the first half, it was up 2.9%.

Not of it felt very exciting because 2.9% isn't even enough to compensate for the growth in underlying frequency, let alone severity pressures. So, we're seeing a situation where the market is bumping along the bottom, but not really addressing the profitability strengths.

Now Admiral itself started increasing prices a bit earlier, quarter two last year and we're up around 10% since then. Now those of you who are mathematically astute will notice from your previous exhibit that our volumes are flat and our premiums are flat, and yet I'm talking about a 10% premium increase and that's hard to square. It's squared by the fact that there has been a mixed change. As Geraint mentioned, more renewal but less new business. Within both new business and renewal, some portfolio shifts towards lower premium risks driven partly by our own changes and partly by competitors' changes.

And another slight element is the fact that telematics are becoming a more important part of the very high premium segment. They represent 3.5%, 4% of the overall market new business, which is not that huge. But of the team market, we've now gone to a situation where they were a very minority taste to where there were substantial minority of sales to that market. And the people that buy telematics from ourselves and our competitors enjoy a substantial discount, which does have some impact on average premiums.

Now, going back to the market as a whole, I've left in the cumulative results in this exhibit just to talk about the long-term pressures. So here we are at the middle of 2015, 11% down on where we were three-and-a-half years ago. Over that period, frequency is probably up 6% or 7%. We've seen small bodily injury frequency come down, but then come right back up to where it was before. And we've seen over that three-and-a-half years, the continual grind of large bodily injury inflation exceeding RPIs. So, obviously, that combination of substantial falls in prices and claims pressures means the industry margins have taken a bit of a hit over the last three years versus where they were.

How does this show in profitability? Well, it doesn't. If you look at the net combined ratio, obviously, 2013 or 2014, two of the most profitability years in the last 30 with breakeven on under 18 basis and decent returns driven by ancillaries and investment income. But, of course, this is all driven by a record reserve releases. We're seeing in 2014 the private mark-to-market, a release of almost 13.5%. The previous record in 2007 was 11.5%.

And those releases are obviously camouflaging a significant deterioration in underlying margins. Will that still be the case in 2015? Will the industry be able to report a decent result? I think what we're seeing in the first half numbers reported so far by and large is some deterioration in net combined and is our evidence of pressure in the market we're seeing from small scale exits, Service, Liberty, RSA Private Broker, which often sales are immaterial in terms of our capacity, but that's certainly symptomatic of pressures.

So, what is the prognosis and our view for pricing going forward? Well, we are believers in history as a guide to the future. And if you look at 2007 and the previous peak in reserved releases, what you saw is a period of 18 months during 2008 and the first half of 2009, where premiums went up, but not sufficiently and materially to compensate for what was quite the high level of claim inflation in that period. And actually, premium increases sufficient to turn margins around and bring the property around didn't really start until the middle of 2009. And so, I think, that's not an implausible prognosis for our own situation now, where we will probably see premium increases in the second half of this year and in the first half of next year, at or about claim – increased costs. But we won't probably see a breakthrough into seriously improved underlying profitability until a bit later into 2016.

Now, a more interesting way to look at profitability in the market and for ourselves is to look at accident year claims ratios, and this is the way we tend to show that. The red line is the market-reported claims ratio by accident year at December 2014. Within the brackets, the reserve release during the course of the 12 months of 2014.

Our own blue line, not directly comparable. First of all, it's June 2015 data. It's not reported. It's projected ultimate. The movements aren't the movements over 12 months. Those are movements over the six months from January 2015 to June 2015.

But what you do see is some very substantial improvements in our projected ultimates, particularly in 2013 and 2014. 2013, a joy, coming down 4% and making 2013 look like it's going to evolve into a particularly profitable year for us. 2014, I'd say a relief, coming down 5 points from 82%, which we were talking about six months ago when we talked about a disappointing pattern of large bodily injury claims.

What's driven those improvements? Well, during the six months, first six months 2015, essentially, we've seen better development on those big bodily injury claims in 2013 and

2014 in particular. We've seen those develop more positively than has been in the actuarial projections at the end of last year. What's happened in the first half of 2015 on 2015 itself, well, we never show – we no longer show projected ultimates for half year. It's too volatile a number in our year. If I could just restrict my comments to saying we've seen frequency probably less markedly increasing the new market experience, and that's true of underlying frequency and bodily injury. And we've had a relatively benign big bodily injury experience in the first half of 2015. But that's exactly what you would expect given our change in mix. So, we're not claiming brilliance here. It's a reflection of a change in book of business.

Let's just dwell a bit longer on the reserve releases which are obviously one of the most striking features of this year half-year's results. This is the history of reserve releases since our floatation averaging around the mid-teens, the constant feature of our profits. The two main drivers of the volatility that's evident there, we thought a relatively stable element of reserve release, which is the fact that the back year's mature towards projected ultimates, the book head down over time towards projected ultimates, and that creates a relatively predictable volume of releases.

And the unpredictable element is changes in projected ultimate. So if the projected ultimate loss ratio, say, deteriorate, that's likely to lead to relatively disappointing outcome on reserve releases we saw, for example, in 2011. If they improve substantially, then you get a much better than average outcome on reserve releases. So, the prospects for reserve releases in the second half is that we would expect reserve releases to be a material part of our profits in the second half. They will not be as material if they were in the first half unless there are further large reductions in projected ultimate.

What I would say is though the underlying profitability, the current profitability of the business in the second half is likely to be somewhat better than the first half given the price increases that we've implemented over the last 12 months.

Now, one of the important considerations is, have we done these reserve releases at the expense of our overall level of conservatism? Have we reduced our margin over ultimate? And in this instance, we've actually had our cake and eat it. As Geraint mentioned, we slightly increased our margin. But now, slightly can be a mealy-mouthed word that really means the rounding error, an immaterial number. In this case, it is a material number. We debated the right adverb should be slightly increased or somewhat increased. It already slightly lessened somewhat, but somewhat more than slightly. So, we've rounded it down to slightly. And it's nice to be able to report a substantial release while also adding to that level of conservatism.

So, that's the situation on the claims and pricing front. I'll hand over to Alistair to talk about some of the other key drivers.

Alistair Hargreaves {BIO 20595748 <GO>}

Good morning. My name is Alistair Hargreaves. I've been with Admiral for seven years. Some of you may remember me from my time as Investor Relations Manager. Since then, I've worked in a number of different areas of the UK Group, first in marketing, looking after our add-on products, then as head of renewals, and now as head of operations.

My first slide looks at other revenue per vehicle. The bar chart shows that our other revenue per vehicle has fallen from £67 in 2014 to £64 in the first half of 2015. This is due to a change in vehicle commission, the up-front per vehicle commission and from Admiral's reinsurance in co-insurance partners. The new business policies written from January 2015, we no longer earn vehicle commission. This change causes the reduction in other revenue, but also an offsetting increase in future profit commissions.

The chart shows the vehicle commission for new business policies as the red component. This will decrease to zero at the full year. It also illustrates that if we exclude the change to vehicle commission, our other revenue per vehicle has been stable at £61. This is the level we're expecting to report for total other revenue per vehicle for the full year, and we expect it to be maintained at around this level for 2016.

With those remaining constant overall, I want to mention some changes to another component of other revenue, our add-on products. Strengthening our add-on benefits has reduced the profit margins of these products. Our objective is to provide useful, easy to understand products, and we regularly review and amend our products to improve the benefits for customers.

These improvements, combined with other changes such as improvements to our online journey, and the introduction of Motor Legal Protection as an optional add-on had resulted in an increase in overall add-on sales, offsetting the reduction in profit margins.

So the next slide shows our expense ratio versus that of the market. We've got two lines for the market. The red one is the one we've used historically. It excludes UKI because the figure has been volatile. But after a few years of more stability in the total market figure, we thought it was worth showing this too, and that's the green dotted line.

Overall, we can see that our expense ratio continues to compare well to the market, and we feel well placed to maintain this in 2015. Being low cost is important to our continued success, so I thought of going through a bit more detail on some of the drivers.

So let's look at how our expense ratio versus competitors breaks down. On average, our book contains more higher risk, higher premium customers than the market as a whole. So, as expense ratio equals cost over premium, just based on the math, our higher average premium equates to an 8 percentage points advantage on expense ratio.

Now, the green block is the interesting one. Higher risk, higher premium customers are typically more expensive to service. For example, they have a higher claims frequency and are more likely to cancel. So, you might expect the mathematical advantage of having a higher average premium book to be eroded by these factors. This is not the case. We're able to service our book of customers more cost effectively than the market average, and this contributes half of the advantage.

It's due to our cost conscious culture. We keep things simple. We maintain a lean management structure and we're based in South Wales. One particularly important component is our low acquisition cost. Acquisition cost is significant. In the first half of 2015, our acquisition costs were over 40% of costs, excluding levies. Our acquisition strategy of fully embracing price comparison and maintaining a strong discipline on all other marketing spend is important to this. However, another key factor that drives acquisition cost is how long our customers stay.

So, let's consider that. On this slide, where I refer to persistency, I'm talking about the proportion of customers who stay with us for the full term and then stay to start a new policy at renewal. On the left of this slide is a bar chart, which illustrates that lower premium customers are more likely to stay than higher premium ones. This is based on our own information and we split it to look at a lower band that's broadly consistent with the market average premium and a higher band that's broadly consistent with our average premium.

Based on this, you might expect us to have lower persistency, but the graph on the right illustrates this is not the case. Admiral has a better persistency than the market. You can see the trend on this graph is showing that for the market as a whole, there's been increases in persistency in the year. This is a continuation of a trend that we've seen for a couple of years, probably due to where we are in the cycle. It's an area we've been very focused on and we're pleased to have increased our advantage.

So why do our customers stay with us? Well, with car insurance, it's always important to remain competitive on price. However, another very important factor is the level of service we give our customers. We want to give fantastic service every time. Key here is our people, our frontline staff. They are the ones who look after our customers. This is where our culture is key. The way we nurture and empower our people, the ownership of the business from the staff share schemes. This plays a vital role on a day-to-day basis.

This slide shows we're getting more real-time customer feedback, which is both motivational for our people and also helps us better understand the customer experience. Overall, our customers are very happy with the service we provide, both in the claims team when in their hour of need, but also at the other touch points, at new business, mid-term or at renewal.

Unfortunately, the feedback isn't always positive. Though painful, the negative feedback can be most helpful. We use it to improve the customer experience going forward, the output of which is demonstrated by the chart at the bottom showing our decreasing complaints over time.

So that's it for me. Back to Henry for the wrap-up.

Henry Allan Engelhardt {BIO 3022947 <GO>}

Thanks, Alistair. This slide serves to point out that once again, we placed very highly in competitions that measure the quality of the workplace and culture. We have a simple philosophy at Admiral: if people like what they do, they'll do it better. And so we go out of our way to make all our offices great places to work. We believe that this gives us a better result across time, and we believe that our result over the last two decades plus confirm this.

As you can see from the numbers and you've heard from our speakers, this is another successful half year for Admiral Group. Most of our operations are growing and we are especially proud of the profitable result that ConTe produced in 2012 in its only fourth year of operations.

It's now time to open it up to your questions. Thank you.

Q&A

Operator

Q - Ravi Tanna {BIO 16926941 <GO>}

Thanks very much. It's Ravi Tanna from Goldman Sachs. I've got three questions, please. The first one was just on the reserving position. I was just wondering, the fact that you've strengthened the reserve margin buffer, does that inform at all or does that potentially leads to changes in the reserving policy going forward and your considerations around where you book relative to ultimate going forward? Some of your peers have started booking closer to ultimate, and I was just wondering if it's that's something you'd consider?

The second question is on distribution. Again, one of your peers referenced the facts that new business sales via price comparison websites have flattened out for the first time. And I was wondering what your observations on that are and what your expectations are around that channel? Do you see that as a blip or is there a specific driver or is it more of a sustainable trend in your view?

And then just the third one was around pricing increases on your book. You talked about putting through 10% increases on new business, but that you've seen a mix shift. I was wondering if you could perhaps elaborate and give us the other piece of the jigsaw or in terms of pricing changes on renewals business and hence, the overall changes to average premiums, please?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

David, if you take the reserve policy and the price increases, and I'll touch on the price comparison question.

A - David Graham Stevens {BIO 1990356 <GO>}

Okay. On the reserving policy, every half year, every year, we take a view of what's the right level of prudence to put into our margin. One of the variables, the only one that informs that decision is the volatility of the ultimate loss ratios. So, in a period when we've had two six months – actually quite substantial movements in the ultimate, fortunately, in both cases, down, but that's still volatility.

To our mind, it makes sense to be more cautious about the margin in that context. Were we to see less volatility in the movements of the ultimate, then we might take a different view on margin. On price mix, sorry, I may be unclear. The 10% was on average across new business in renewals.

The price comparison sites dominate new business now. All the low and actually, medium-hanging fruit has been taken. So any future gains and share gains from price comparison sites is going to come from the people who are most resistant to it.

But also, the point in the cycle where prices aren't going up doesn't lend itself to price comparison businesses growing. If we see some more increases in the market, I think you will see some more growth out of price comparison.

Q - Ravi Tanna {BIO 16926941 <GO>}

Okay.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Good morning. Dhruv Gahlaut, HSBC. Three questions I have. Firstly, in terms of investment income, you've accrued almost £13 million at the half-year stage. At what – and then, how much would the loss ratio need to come down for that to flow through the P&L?

Secondly, in terms of the reinsurance agreements, which are coming out for 2016, when do we hear on that, if you could talk a bit more?

Thirdly, in terms of the Compare.com, you've got a tie-up with Google in California. Is that just restricted to California or does it go to other, as in – is it for other states as well?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

Let me touch on the last one, and then Geraint, you can take the other two questions. Google has expanded. They're now doing Texas and nothing else at the moment. They're threatening to do Illinois, I think, but slower allowed to them. We don't know whether they'll cover all 50 states or just pick off a few or what. But they're now in two.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

And the new guys are going to put them in every state they go in terms of (44:52)?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

That's correct. That's correct.

A - David Graham Stevens {BIO 1990356 <GO>}

Among the other two questions, the first one was the investment income accrual that we're making on the funds withheld and the reinsurance arrangements over 2014 underwriting year in particular. What has to happen there, so that's £13 million to be released is a sufficiently strong improvement in the 2014 projected ultimate. So, that income can be released to the P&L. The 2014 projection has to come down a couple of more points, but that would be the case. Of course, not guaranteed to be the case. So, basically, it has to improve a couple of points.

The next question was on the reinsurance. We are currently in a position to speak to our reinsurers on the panel. Good discussions ongoing. I'd expect in March 2016 to be reporting what we'd be doing in 2017 and beyond.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

And could you actually (45:59) – normally these – the 35% of the book gets a – it's a two-year or three-year contract. Could you actually make them similar to the Munich RE contract, i.e., it goes more longer term? Is that something which you're looking at as well?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

Yeah. We talk to reinsurers about different lengths of contracts. It all comes down to an internal decision about the economics of the contract on offer, and term is one factor and margin is another factor, along with the other terms and conditions. It tends to be the case that the best terms for us and to the reinsurers tend to be on shorter-term protégé contracts. That's why I suspect that renewals will look a lot similar to the expiring deals.

Q - Andy Hughes {BIO 15036395 <GO>}

All right. Thanks so much. Andy Hughes from Macquarie. Three questions if I could. The first one is on the best estimate loss ratios on slide 47, the second one. Basically, obviously, a big move in the half year. Could you give us any more information about what's changed in six months? What's triggered such a big move on those best estimate loss ratios? I think large claims have developed positively, but it does seem like a very big move.

And (46:55) at the PRA looking at what add-on you should have for this business given the volatility in the best estimate loss ratios. I mean obviously, the best estimate loss ratios means that they reserving from us two years has dropped by £150 million or something. Doesn't that mean you can end up with a very big add-on because the business is extremely volatile?

And the final question on the kind of trend you've listened to, to teenage drivers taking out telematics. Wouldn't that follow into older ages as they get older and what you see, would you have to retreat from the older ages as these people get older? So, if you took out some of (47:28) from the 17, one day it's 21, (47:31) keep it up. So, is this just a gradual progression that exonerates as price rises come through? Thank you.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

(47:43) telematics than you do capital. Okay. So, essentially, what we saw in the first six months – what we saw in 2013 and particularly in calendar year 2014 is we saw an unusually large number of large bodily injury cases result. And it's very difficult to do actuarial extrapolations very early on large bodily injury. We then saw in the first six months of 2015 there's more information with capital in those claims that they turned out collectively to be materially better than we had initially thought.

I think when you talk about the volatility per ultimate, I think it's only fair to recognize that we actually share with our investors our projected ultimate loss ratios, which was essentially shared by all insurers and it may well be the other insurers have more volatility in their underlying projected ultimate than is clear from their reported numbers.

On the telematic front, the current constraint is – in terms of which segments of the market telematics works for is all around the cost of delivery, which still is substantial and means that it's not really economic to deliver a telematic solution to a large proportion of the older market. But that may well change over time. I think you used the word retreat and necessity of retreating. Did I hear that right?

Q - Andy Hughes {BIO 15036395 <GO>}

I can't remember, sorry.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

Okay. Okay. So, I didn't quite understand that word. But generally, I think telematics will remain a high premium niche until technology matures.

A - David Graham Stevens {BIO 1990356 <GO>}

On the capital question, (49:35). I'm not sure we would consider our reserves, especially what we knew, to be particularly more volatile than our peer group. We probably should point out our volatility tends, on average, to be on the positive side, which I don't think hurts. I think it's fair to say that the results really spoke about the two main parts to the add-on. The first is the recognition of profit commission risk.

Obviously, economic capital includes a big amount of capital in relation to profit commission income. The standard formula doesn't deal with profit commission income at all, so a big part of the add-on is profit commission risk. And the other part is PPO risks, so we believe it's the standard formula and estimates the risks arising from PPO claims. I expect that to be a consistent feature with our competitors and peers.

But I wouldn't say that the volatility or the improvements we saw in the six months would lead to a particularly higher reserve charge than our peers we'd expect to see or the rest of the market would see.

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

(50:40). Sorry. Greig Paterson, KBW. Base rate, can you give me the base rate change from over the half year just so that I can put that in my model? You usually provide it.

Second thing is, I wonder if you could give us a feel on a written basis what you think the year-on-year inflation rate will be in aggregate, and give us some color as you have in the past have done when you're going through damage loss or frequency, et cetera.

And then, the third thing, I was wondering – I noticed you've done another accounting change around your profit commission. I wonder if you can just explain that in a little bit more detail, which of the accounts or possibly send us some kind of spreadsheet to explain what's happened there because previously, it was material, if I remember, the change.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

David, do you want to take the first two? And, Geraint, the last one. Base rate and inflation rate.

A - David Graham Stevens {BIO 1990356 <GO>}

Okay. (51:59) on the base rate is. What we've said -- what he said was that we're up 10% by the end of the first half versus where we – when we started increasing, which was quarter two, and is being spread roughly proportionally across that period, those changes.

In terms of projecting claims, I mean...

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

That's not the base rate because the new business mix affects that materially. What was the base rate change over the first half? You usually provide that from the end of December to the end of June.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

Let's have the conversation offline because I think I just answered that question by saying, in a sense, what we're saying is the base rates have gone up by the equivalent of 10% since quarter two last year, and it's been roughly proportional across that period. But I'm happy if there's some different understanding of base rates have a further conversation.

In terms of projecting the claims situation, I think what you can see in the public domain is the ABI frequency numbers, plus 3% in quarter one. I don't think quarter two is out yet. You can see in the public domain the portal numbers, which were incredibly volatile. So July has just come out and it's 11% up year-on-year, but June was a much different number. So, what you're seeing, I think, what we'd say on that is bodily injury frequency. We've had frequency sort of return to roughly where it was before the reforms, but it's not transparent from the portal.

And on long term, on (53:09), I think it take a long-term view that it was roughly 3% or 4% above our BI (53:15). And there are factors that changed (53:18) see anything in particular in this calendar year that's likely to change that, but you never know.

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

Was that aggregate across the book would you think year-on-year?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

You've got your own models. Plug it in and come up with a conclusion.

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

But didn't people say that damage had also started to increase now? Damage is a third of your claims.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

I think damage has in the last few years increased roughly in line with inflation. I don't see in our own book any huge evidence that on repairs of own damage. We're seeing it very different from that. I think you see some inflation. We factored on third party where that's, I think, inflating a bit more than damage.

A - David Graham Stevens {BIO 1990356 <GO>}

So, the final question was on the change on the profit commission, the vehicle commission. So, the back end, a couple of years ago, we made a change where we started charging our current reinsurers a fixed per vehicle commission that we call reinsurer vehicle commission, about two years in the reinsurer's economics. So, when the reinsurer works out the combined ratio they experience on our account, that charge as part of that result until it impacts the level of profit commission we get. The change we've made this year is to start backing that out. It makes the situation much simpler. It ultimately means that the reinsurers' combined ratio is reduced by the level of that charge, and so we get more profit ratio.

A - Geraint Jones {BIO 19738535 <GO>}

(54:54).

Q - Alan G. Devlin {BIO 5936254 <GO>}

Hello, Alan Devlin from Barclays. A couple of questions. Just reform on Solvency II. You seem quite relaxed in Solvency II at the full-year results. Is there anything significantly changed? And secondly, would you expect the internal model to give you benefits versus the standard model plus the add-ons? And just secondly on pricing as well. Was there any difference – material difference in the pricing between new business on the renewal book? I think you mentioned your focusing more – increased focus on retentions. And then just finally on any change in recent (55:33) that's either pointed to (55:35). Thanks.

A - Geraint Jones {BIO 19738535 <GO>}

On Solvency II, I wouldn't say that my level of relaxation has particularly changed since the full year. I think the process has become clearer in terms of how the add-on gets confirmed and what the timeline is for that. Given we're going pretty close to Solvency II implementation, you'd expect some clarity on that. And we now have a good idea that will be October, November time. I don't think our view on the potential outcome on that has particularly changed in the past few months. It's still uncertain, hence, I'd love to give you the full detailed situation, but we are where we are at this point in time.

In terms of other – an internal model can give capital requirement benefits against the standard formula plus the add-ons. I think a little bit of work to be done before we get to that outcome. I don't expect there to be a very material difference between our internally modeled capital requirement and the added onto SCR under the Standard Formula, a couple of years way before we get there.

A - David Graham Stevens {BIO 1990356 <GO>}

And on real new business pricing, there's a number of differences between renewal pricing in new businesses, points of information that we have about our existing customers that we don't have about our new business customers, and some of the variables are differentially predictive too at renewal and new business. And that is – that means that we don't have necessarily the same rates at new business and renewal. That's been the case for a number of years. It hasn't really changed materially over the last 12 months.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

And the relationship with Munich Re continues to be strong. We're very close to them, not only are they our biggest reinsurance partner, but they're a pretty big shareholder as well. So we're getting to know Manfred's successor, and the relationship seems to be every bit as strong as it always has been.

Q - Simon G. Denison-Smith

Simon Denison-Smith from Metropolis Capital. A couple of questions on the international business. Are you seeing any copycats to compare.com in the U.S. emerging?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

Google is doing something similar, not exactly the same.

Q - Simon G. Denison-Smith

But in partnership with you?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

And others. We're not their only partner, and they're doing it on their own as well, so that's a bit of a difference that they're bringing in a number of different sources to fuel their quote engine.

No, I think nobody else. I mean, a few people looking at what we're doing, maybe doing similar things. But nobody really going out as a consumer brand with European-style price comparison, which is quote to bind unpaid.

Q - Simon G. Denison-Smith

Okay. And in France – sorry, in Spain and Italy, where are we in terms of the percentage of quotes that are being representative of insurance as being written through the price comparison? And what are your market shares in both of those markets?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

Did anyone touch Spain?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. So the aggregator markets deals was about 15% of the new business. And I was sure you have the numbers. You can see it but, it's quite significant compared to the all overall market share that we have in the market.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

And – oops, he's gone. Our CEO from Italian was here, but he had to go catch a flight. In Italy, it's a bit bigger in terms of new business.

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. As you have seen, the share of the aggregator market in Italy has grown significantly in the past three years, so I'd say it's about 20%.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

Yes, at least.

A - Cristina Nestares {BIO 18674745 <GO>}

Going up, yes.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

And our share is, again, bigger than our market share is our share of price comparison business in that market.

Q - Simon G. Denison-Smith

(59:38)

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

I can't offhand.

A - Cristina Nestares {BIO 18674745 <GO>}

But also, we don't have them because we don't know how many sales exactly are going through price comparison. It's based on a public figure.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

And in Italy, we don't have a price comparison site; and in Spain, we do. We have a lot more knowledge about price comparison in Spain than we do in Italy.

A - Cristina Nestares {BIO 18674745 <GO>}

Yes.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Good morning. It's Fahad Changazi from Nomura. Just a question on Spain and the new Baremo. There are some really significant numbers being talked about in the claims increases and what is your expectation of general claims costs, how it will develop. Do you see disruption in the market in 2016? How long will it take to settle, if any?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. So we stick the Baremo to be approved for January 2016. There are many numbers in the market, many figures. The one that we work with is in the north of 5%, overall increase in claims cost, so not just BI but the overall claims increase. We expect this to have a significant impact on the market and to be a disruption.

As I was talking, this is a market that has enjoyed almost 14 years of combined ratios below 100%. So price have not really gone up in all this period. And therefore, this is a momentum and we expect companies are going to start increasing their prices. Also the market has shrunk by 20% in seven years, so there is a lot of paying in terms of the expense ratio.

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

Hello. It's Andrew Crean from Autonomous. Three questions if I can. Firstly if the Ogden rates are brought down, what would be the impact on the business?

Secondly, you obviously are going to spend more and compare now. Could you give us some sense as to the investment, which you're going to be making in 2016? And whether you'd consider taking your share down, getting a third party in?

And then thirdly in the UK, there's some quite interesting ABI statistics out about the loss ratios on different ages of drivers. It's not a survey I think you contributed to, but what it showed was that the younger drivers are much more profitable but the loss ratios were deteriorating over time. And I was just wondering whether in the light of that, that's your type of experience, whether your increasing rates or greater rates in the market is a function of the fact that you've got more younger drivers where there's loss ratio deterioration?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

David do you want to take Ogden, a name I haven't heard in a while? And the ABI by (1:02:25). I'll talk to the (01:02:26).

A - David Graham Stevens {BIO 1990356 <GO>}

Okay, yes. I mean, Ogden is under further review and it has been for a long time but it's a bit reminiscent to Baremo. At some point, someone will do something about it after years of it being imminent it will actually happen at some point. I think it depends what the shift is in terms of what the discount rate becomes. But if it's a reasonably small reduction in the implied discount rate on Ogden, then it's probably sort of net neutral because it will encourage fewer people to use PPOs, which are relatively very expensive. Obviously, if it's a substantial – very substantial discount reduction on Ogden, then it will have a much more material impact and it will impact all the open claims or the large open claims or the future loss attached to them.

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

How do you define substantial versus modest reasonable?

A - David Graham Stevens {BIO 1990356 <GO>}

Well, I think if you look at the – most people when they're reserving PPOs would reserve them with a discount rate of zero or minus a half or minus one. It would be very, very expensive for the market if anyone was to contemplate Ogden coming down towards those low numbers. If it came down a bit to one-and-a-half or something like that, then you'd get displacements of people into lump sum away from PPO, which is a positive outcome. I'm not sure if that's helpful.

But the young driver – when our books change, we have no philosophical commitment to a certain part of the market. We move our business to where we see the profit opportunity. And we've been – I think we've stood up the last three or four times and talked about mixed changes and our book moving towards lower premium. And we've talked about that as being driven both by our own changes and competitive, seeking to re-enter some of those segments.

I think I would say what that is, is us responding to those changing relative profitabilities in the market. And that's not just a six month thing. It's been going on over time. So I would not at all describe the increase we've put in, in the last 12 months as a response to an adverse impact on younger drivers.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

And the Comparenow budgets won't be done for 2016 until towards the end of this year. We wait as long as we possibly can to do our budgeting, so that we have the most information we can use in terms of trying to understand what we're going to do in the future. So we don't have any guidance at this point in time on 2016.

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

(01:05:20)

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

Yes. We've got partners in already in Comparenow. We're not 100% in Comparenow. At the back, at the back.

Q - David A. Bracewell {BIO 16394801 <GO>}

Hi. It's David Bracewell from Redburn. Three questions. One on the price comparison in the UK. I'm confused, you've taken a bit of a hit this half-year in terms of margin and profit. But when I look at the number one player out there, it doesn't seem to be, its results doesn't seem to be impacted by current conditions. And one of your peers has come out recently and said, they are going to be doubling their EBIT in the next five years. So I just wonder what your view is on the price comparison business in the future in the UK?

And the second question is on Spain. You've talked about the Baremo coming in and that's going to upset the market and prices are going to rise. And therefore, you're going to look to undercut the market. That's reminiscent of what you did in the UK a number of years ago when you doubled the market share by undercutting the market. But at this time, there's a lot of uncertainty attached to the claim cost increases that are going to be in Spain. And therefore, I just wonder how confident you are that you can undercut the market and actually continue to write profitable and decent business in Spain?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

Cristina, you want to take the Spanish question?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. The cutting about the Baremo is that there is no uncertainty. We know exactly more or less how everything cost. So when I look at the Italian market or the UK market, the loss ratio has a very long tail.

In our case in Spain, the tail is extremely short. So even though the Baremo increases, there is very little uncertainty. The only part of uncertainty is that it's not clear if the charge is going to apply, the Baremo retrospective to certain open claims. But in our cases, it's not a big problem because we have very few large funds. So maybe for other companies that are bigger, there is a higher degree of uncertainty. We're talking about less than five claims when it comes to these uncertainties.

So the Baremo for us is positive even though it's going to increase claims cost because what we need to stimulate in Spain is shopping. Since we launched in Spain nine years ago, the direct market hasn't grown that much and educators have grown, but not anything similar to the UK, still only 15% of the new business is done through aggregators. So, what we want to have is a platform where we can expose our rates, the bigger, the more people that can see our rates, the more chances we have to grow. And that's why Baremo, even though it's going to increase claims for cost has such a positive impact for us.

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

The Confused question. Yeah Confused is finding it tough going, but I could stand here and say we're going to double our EBITDA in five years as well. That doesn't mean we're going to double our EBITDA in five years. I certainly hope it's true. We are branching out. We've recently launched something called Carfused. Carfused basically gives you a chance to by a car, to go in and look at a variety of cars in your area or other parts of the country. It couples that with the cost of the insurance and if you want, the cost of the credit. So you can understand what is the total cost of the purchase of any car that you might choose to buy.

And there are very few companies doing that. Nobody is doing that composite promotion of giving you all the cost and have a brand name as well that we already have. So that's a very interesting development. It's live now. You can go in and test it, but it's kind of a beta site at the moment. So we're still working on that. So overall, we're looking for new ways to expand Confused and to take the business forward. Right now it's just a tough half-year.

Q - Janet Demir {BIO 19462264 <GO>}

Hi. Janet Demir from Morgan Stanley. I'm just curious whether you've experienced any difference in your whiplash claims post the MedCo reforms.

A - Alistair Hargreaves {BIO 20595748 <GO>}

The reforms only came in a few months ago, and it's too early to identify any clear differences.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes, Macquarie. Follow-up question on the earnings outlook for H2. So I'll go back to a slide that said to get the same level of reserve releases in H2, we need the same sort of drop in our best estimate loss ratios. Given that was a record drop in best estimate loss ratios and the underwriting in H1 sounds like it was pretty good because you're talking about lower level of large claims in H1, are you basically, in simple terms, saying the earnings are going to be a lot lower in H2? And if not, why not? Thank you.

A - David Graham Stevens {BIO 1990356 <GO>}

I'll just do one point in clarification, and then maybe Geraint will answer the question. I didn't say it has to be the same. I said it has to be a large reduction in ultimates for the reserve releases. (01:10:13).

Q - Andy Hughes {BIO 15036395 <GO>}

(01:10:14)

A - Geraint Jones {BIO 19738535 <GO>}

Well, I think you got a point of more than slightly more than some. It does tend to be the case on average in a six month period that our projected ultimates will move down slightly, I was going to say. This six month period was exceptional in the reserve, very significant improvements in the projected ultimates. I think it would be unlikely – I think it's unlikely we see that improvement again in the second half of the year. So I think it's unlikely we would see a 29% reserve lease in the second half of the year.

David made the comment that the level of profitability, i.e., the profit loss ratios on the business we're earning in 2015 are likely to improve in the second half of the year as they impacted the rate, the base rate increases feeds through into that year-end result. And so there is a chance that those two things offset each other i.e. lower second half result releases, better current year gains and profitability. We don't give any insight or outlook as you (01:11:13). We don't give earnings outlooks as you know

There's also, I'd say one more point. Certainly, one more point. The size of the margin currently is based on the uncertainty and the volatility. We've seen the best estimates over the past year or so is at low tier edge (1:11:21) of our reserving policy. So they're currently extremely cautiously reserved and I think it's unlikely if we see more stability in those projected little loss ratios that we want to remain at that level of conservatism.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Hi. I'm Dhruv Gahlaut. Just a follow-up, actually a couple of them. Firstly, in terms of the home business, you made a small profit held by the weather. As in how do you see this developing in the second half in terms of what the aspirations are?

Secondly, in terms of the investment last year, I think you talked about Guidewire as a new implementing Guidewire in the organization. Is it just to the part of the business or is it going to be across the business i.e. claims, pricing, et cetera? And where exactly are you with that?

And thirdly, at the management change I think you said the idea was that you would be sticking with the business after 12 months. I mean, could you say a bit more in terms of what functions, et cetera?

A - Henry Allan Engelhardt {BIO 3022947 <GO>}

Well, the home business in particular why we chose the windowless rooms, you couldn't see the weather pattern outside while we gave the presentation. But more specifically...

A - David Graham Stevens {BIO 1990356 <GO>}

Yes, I mean, home made an £0.6 million, it's not going to be a big deal either way in the second half unless it's some catastrophic weather event in which case it might be a bigger deal. What was the next question?

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Guidewire.

A - David Graham Stevens {BIO 1990356 <GO>}

Guidewire, yes. Guidewire is being implemented. We're expecting it to be implemented over the course of 2016. It replaces the system that we started with in 1993. In terms of administration and accounting and payment collection, we have our own proprietary claims system. At this point, it's not replacing that.

And my role, to be determined. But I'll be sticking with the business in some way, shape and form, but not certain exactly what yet.

Any questions from the phones? I remembered. No. Any other questions anywhere else? Thank you very much. See you in March.

Operator

This concludes today's call, ladies and gentlemen. Thank you for joining. You may now disconnect your lines.
