Admiral Group PLC Interim Management Statement Conference Call

Company Participants

- David Stevens, COO
- Henry Engelhardt, CEO
- Kevin Chidwick, CFO

Other Participants

- Adrienne Lim, Analyst
- Andrew Crean, Analyst
- Andy Broadfield, Analyst
- Andy Hughes, Analyst
- Chris Esson, Analyst
- James Pearce, Analyst
- Marcus Barnard, Analyst
- Paul Goodhind, Analyst
- Peter Eliot, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good day. And welcome to the Admiral Insurance conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to your host today, Mr. Kevin Chidwick. Please go ahead, sir.

Kevin Chidwick {BIO 15100612 <GO>}

Thank you very much. Good morning, everybody. It's Kevin Chidwick here, the CFO of Admiral Group. I'm going to talk about our IMS today for about five to 10 minutes. And then take as many questions as people would like to pose.

If you are not already aware and don't have it in front of you, then you should know that there are some slides to accompany this call which are on our website, which is a mini pack of the same slides we'll be presenting to our investors and analysts later on today. So please, if you can get access to those, go ahead and take a look at them. And that will explain some of the points I'll make in the next five to 10 minutes.

So let me start by saying that what we're saying to the market today is based on what we know about claims development in the Third Quarter of this year. We're expecting to report our profits for 2011 up about 10% on 2010, which is lower than the analysts are currently expecting our numbers to come out at. And we are disappointed and sorry to have to be saying that.

We are clearly concerned about the development of large claims in the Third Quarter. And we have taken some action as a result of what we've been seeing. And I'll talk a bit more about that in a moment. But first to say that the development of large claims in the Third Quarter means that our H2 earnings are projecting to be lower than the H1 earnings.

And I'm going to take you through now some of the other news from the Third Quarter before I go on to talk more about claims development patterns and what we're seeing.

So if I start with the other news, which is on the third slide of this -- sorry, the fourth slide of this pack. Our turnover grew in the Third Quarter by about 3%, which means that we're growing now at an annualized rate of about 13%, which is significantly slower than the growth we were showing in the last 18 months, which was in the 30s.

We raised our rates in the Third Quarter. We raised them, which is against the market, which seems to have dropped its rates in the Third Quarter. So we're clearly raising rates ahead of the market.

Overall, our turnover at the end of the Third Quarter was up about 30% on the same turnover for the Third Quarter last year. Most of that growth, of course, is driven by what happened in the previous nine months, not necessarily in the quarter itself.

And in the Third Quarter, our ancillary income line performed pretty much in line with the way it had done in the first half of the year. That is to say that the ancillary income per vehicle was pretty stable.

So all of these things are in line with what we said we were going to be doing when we talked about the half-year results back in August. So there shouldn't be really any surprises in any of that news. But the one thing that is different, clearly, is the claims development that emerged in the Third Quarter. Now I'm going to go on to talk about that in some more detail.

It wasn't in line with what we expected. We saw more large BI claims in the Third Quarter. And what I'd like to do is talk a little bit about how important those large BI claims are to our overall numbers.

If you look on page six of this pack, you'll see two pie charts. They show the split of claims in the Admiral book between -- one showing the volume of claims by size. And the other one showing the value of claims by size. And you can see from these pie charts that we're now in a position. And this is a position that's emerged over the last few years, that more than 50% of our claims are coming from just 2% of our volume.

And if you look on the next slide, on page 7, you can see that the large claims, the ones that I want to specifically focus in on today, which are the claims that are more than GBP100,000 in value, make up roughly one-quarter, just over one-quarter of our total case reserves. And that's a trend that's been moving up over quite a number of years, as you can see from these graphs.

And so roughly one-quarter of our outstanding claims reserves are made up of these very large claims. And if you look at the numbers at the bottom of this slide, you'll see that the vast majority. And in fact in the case of the 2011 year, only 1% has actually been paid. So the total -- virtually all of it is still outstanding in terms of claims. And there's no paid pattern to refer to yet. So these are a relatively small number of claims that constitute a very large proportion, or a significant minority of our outstanding claims.

And they are volatile in nature. If you look at the next slide on this pack on page 8, you can see how volatile they can be. And this slide is looking at the Admiral data for a number of underwriting years from 2001 to 2009. And it's taking the case reserves as they will be -- as they are at the end of 24 months of development and indexing them back to how they got to that point.

And so if you imagine that they all finished at the same point, you can see that they all took very different journeys to get there. And indeed, the journeys are very volatile and very unpredictable. And we are effectively for the 2010 and 2011 years on a path towards that journey. And they will take something of a volatile journey to get there.

And that's not just true for Admiral, it's true for the whole market as a whole. And if you look on the next slide, which is now slide nine of this mini pack, this data is for the market as a whole for their large claims and how those patterns change.

And the important -- I think the interesting data on this slide is the thing that's circled at the bottom, which is the level of inflation that we see in these very large claims, which is itself very volatile. So you can see on the data at the bottom that recent inflation rates have been 1.7%, 17.5%, 12%, 1%, 18%, minus 10%, 18%. So it's very, very volatile. And large swings in either direction.

So the picture I'm trying to present is that Admiral is not immune to getting large claims, of course. We get more than our fair share of them because we do tend to write a book with a slightly younger bias to it. But the market as a whole would expect to see volatility in large claims. And we've seen some volatility in 2011.

And we've seen a bit more, a few more of these claims in the Third Quarter than we would have expected to see. And that means that we have to extrapolate from there to a view that says they're going to develop into a higher loss ratio outcome than we had expected.

That's the picture on large claims. But in terms of why that's going on, the next few slides try and talk to that point. And on slide 10, we would say that it's not the case that we're writing a more risky book and therefore this is the reason why we're getting more of these large claims.

Our portfolio mix, as you can see from the -- we've highlighted three components of our portfolio here which tend to be the riskier segments; non-comprehensive policies, zero no claims bonus policies, or young males. And the portfolio mix over the last two to three years has not really changed that much in these segments. It's not as if Admiral has grown into some risky segments and that's what driving this change. Our portfolio, as I say, has been broadly the same over the time. And our claims frequency overall doesn't look particularly out of line with the market.

So it's not down to writing a more risky book. And it's not the case that we're relaxed our underwriting criteria in order to seek growth. Our underwriting criteria over the last couple of years has been exactly the same as it always has been. And our pricing algorithms have not been changed in any way to attract any other forms of business. And you can see that in the portfolio mix.

So it's not that we've been particularly aggressive in terms of trying to grow particular areas. And it's not that we've grown into particularly risky segments. What is probably the case. And on page 11 there's three plausible explanations here, is that it's an environmental effect that there are more of these large claims around, in which case you'd expect everybody to be seeing something similar to Admiral in time.

But there isn't really much evidence to suggest that's the case at the moment. But it may be the case. And we may see that if that's true, then ultimately the whole market would have to reflect that in its rates.

Or it could secondly be a question of randomness. And that seems to us more likely the case, that we are effectively having a disappointing quarter on top of a disappointing half. And that that would, one would imagine, unwind in time. So you have lucky periods and unlucky periods. And if that's the case, then 2011 will be a disappointing outcome for us. But one would imagine on average, it would bounce back in next year or the year after.

And the third explanation would be that we are seeing higher initial reserving on our case reserves in the Admiral book than we've done in the past. And if that's true, then ultimately the pay. And when they unwind, we'll see some of that inflation in inverted commas in 2011 coming off next year.

So it's our view that it is largely down to randomness and potentially some over-prudency in reserving. But we fully understand that's not a very satisfactory answer for our shareholders because it still produces some volatility in the results. and volatility is unsatisfactory when it comes to producing a predictable earnings stream.

But overall, we still believe it's a good business. We are, if these numbers ultimately turn out to be true, then we are writing business today in the mid-80s combined ratio instead of being in the early 80s combined ratio. That's disappointing. And we're sorry to have to say that. But on the other hand, it's still a very profitable business, still significantly ahead of our shareholders. And -- sorry, it's ahead of our competitors; and we believe that therefore logically, the profit maximizing thing to do for our shareholders is to continue to grow the book.

But we have taken some action to dampen down the volatility, or to attempt to attempt to mitigate some of the volatility in the book. We've made some selective price increases in certain parts of the portfolio, elements that would typically produce more volatile high claims numbers. And so we've done a few specific actions in a few isolated areas. We have, as I spoke about earlier, raised our rates somewhat ahead of the market. Year to date, our rate increases are now about 14% compared to a market that's according to indices, has raised its rates about 6%.

So we are significantly ahead of the market so far this year. And we have slowed down our growth quite considerably, as I mentioned earlier. We're now growing at a run rate of 13% or so, which is more like the sort of level of growth that we've seen historically for Admiral rather than the more rapid growth we saw in the last couple of years.

We believe these are the right actions to be taken at this stage. And we are, of course, monitoring the position with large claims very carefully. And we'll see how things develop as we go through the Fourth Quarter. And we'll be able to give more news on those at the end of the year.

But I must repeat, we are very concerned about the position. But it is our view there's no news at this stage that says that the Admiral model is broken. What we have is the business is still writing very good business and the business is still growing. And we intend to deliver, all else being equal now, a profit growth in 2011 of around about 10%. And it's our intention at the moment to continue to grow through 2012. And we aim to grow the business by something around 10% or more next year. If that happens. And all else remains equal, then we would anticipate being able to deliver for our shareholders profit and growth once again in 2012.

That's it from me. Thank you. I'll now very happily open it up to questions.

Questions And Answers

Operator

(Operator Instructions) Please go ahead.

Q - Andy Broadfield {BIO 7273415 <GO>}

Andy Broadfield, Barclays Capital. Yes. Three questions, if I may. And if you want to develop them later, then by all means do. The first question is what's the role of PPO in this, given that you don't discount your reserves? And potentially, just from a nominal level, that could have an impact on the way that the liabilities are reported. And I guess that does apply specifically to these large bodily injury claims.

Second question is the frequency of these big claims, you've shown that the quantum of these large claims has grown. But has the frequency of these large claims grown as well? And is that a reflection of the way that you've perhaps -- or some of the risk categories you've perhaps opened up to over time?

And the third question is you said that you're seeing higher initial claims reserves. That's a sort of a passive statement. But I assume that you set the initial claims reserves. So it would suggest that you are taking that decision yourselves. And presumably, that doesn't make an explanation; it's your justification or your action that's done that.

A - Kevin Chidwick {BIO 15100612 <GO>}

Okay. Thanks, Andy. Well first on PPO, I'd say that we have for some time now held a specific provision for the emergence of higher levels of PPO over and above the case reserves, the projected ultimate's. And that provision remains at a very significant level, we believe much more significant than the industry average. That's what our auditors tell us anyway. So we think we are well reserved for further emergence of PPO. But the actual occurrences of PPO in our book is still very, very small and, therefore, not relevant to this issue about further high claims volumes in the Third Quarter of this year.

On the question of frequency and severity, I perhaps should have made it clearer in the call it is a frequency issue, as well as a severity issue. And in fact, it's more of a frequency issue than severity in the Third Quarter. We have seen more of these claims than we typically would expect to see. And these are claims over the level of GBP100,000 each. So we don't get that many of them. We'll be settling 400,000 to 500,000 claims this year. And we'll probably see something in the order of between 500 and 700 of these large claims. But they're very small in number, relative to the number of claims we process as a business. But they're very significant in value, as I talked about earlier.

So we're expecting to get 500. If we get 600, then it's a relatively small change in volume. But it can have a material effect on your view about claims inflation. So it is a frequency issue as well.

And in terms of setting higher initial claims reserve, I think it's a very well worded question; it's a good point. I think what we're trying to say there is that we can't be clear at this stage whether -- we are seeing higher claims reserves happening, that's clearly the case, because the average claim reserve per large claim is bigger than we typically would expect it to be. But what we can't be clear of at this stage is whether that's because we are therefore expecting not have to pay out larger high claims when these ultimately settle, or whether there's an element of over-prudency going on in the claims handling in a way in which we then set that reserve.

And that's more of a psychological issue about how you seek to set your reserve as a claims handler. If you found that you are disappointed in a claims outcome on your last claim that you've just settled, you may take a view to make sure you reserve this one a little bit more prudently to make sure you've given yourself even headroom to not be disappointed this time around.

That may be the case. But it may be the case that you need to set that reserve because we are generally seeing that level of inflation continuing on. So that's why I make the comment that it may be about over-prudency. But I wouldn't want to leave that as the explanation, because until it all unwinds. And as I said before only 1% of these cases so far this year have actually been paid so far, we just won't be able to say for sure.

Q - Andy Broadfield {BIO 7273415 <GO>}

So that ties -- that's an operational issue effectively in that -- I know you've talked before about having significant growth and having to -- growth in personnel as well as a result. And that takes time to train those guys up. Is that all tied into the same issue?

A - Kevin Chidwick {BIO 15100612 <GO>}

No; no, it's not. I think our comments about operational slippage that we made at the half-year were a putting forward of a hypothesis as perhaps the reasons why we might be seeing this activity. Our analysis that we've done in the Third Quarter and to date tells us that there's no evidence to suggest that's the case.

So it's not a case of new handlers not following procedures as well as other handlers. That's simply not the case. But what is the case is that there is a great deal of judgment goes into the establishment of a reserve on a large claim. There's a lot of ambiguity about the nature of the claim. There's a lot of uncertainty, unknown facts about how the claim will develop, the condition of the person in the accident and the prognosis for their development. And what, therefore, costs they're likely to incur before they're hopefully back to full recovery or need permanent long term care.

And so there's a lot of judgment goes into the assessment of that number. And you can't look at a particular case reserve and go, ah, I see that you've made a more prudent judgment there than you would have done before. It's a very subtle area of judgment. And therefore, it may be the case that these reserves that are somewhat higher than previously are entirely justified, because that will indeed be what is necessary; or it may the case that these reserves are a little more prudent than they need to be. And that's, as I said before, because of what claims handlers are seeing from what they've paid in the past.

So only in time we will see whether this turns out to be the case. But it is clearly the case that over and above that, we have seen higher numbers of these large claims than we would typically expect to see. And in the absence of any evidence that we've been able to establish for any other reason with that. And I emphasize that we have not delved into more riskier elements of the UK population and we have not seen a development in our portfolio that would suggest we're writing riskier business, in the absence of that information, we have to allocate the primary cause down to randomness in the Third Quarter.

Q - Andy Broadfield {BIO 7273415 <GO>}

Okay. Thanks very much.

Q - Paul Goodhind {BIO 16200839 <GO>}

Paul Goodhind, Redburn. Two questions. One possible thesis I would put forward, which you didn't include in your list, is that others have perhaps caught you up to some extent on the risk selection side. And that whilst you aren't perhaps getting adverse selection, you're getting less good selection than you have historically; which wouldn't be something that you've done badly. But just that others have had some success in replicating perhaps some of your pricing algorithms. Is that a theoretical possibility that you would consider as being valid?

And the second question is really a strategic business model one, because your reinsurance piece, I think at a combined of 102%, the reinsurers with interest rates at current levels would start to get pressured in terms of the return that they would be earning on the business.

Now you're well away from 102% obviously at the moment. But we know that the industry receives swings of 20 points or more across the cycle. And given the slippage that we've seen so far, it's not out of all bounds of possibility that you may come close to that, which will still be a very good result relative to the industry, which obviously peaked above 120% this time. But the point I'm making is that you can still be a great business and have a big advantage, yet you would perhaps have to rethink some of our reinsurance strategies and how you actually finance the business. And have you thought about that. And what are the options that you would consider?

A - Kevin Chidwick {BIO 15100612 <GO>}

Thanks, Paul. Let me deal with your first question first, have the others caught up and is that why we're seeing some of this adverse development. I think it is almost certainly the case from what we're seeing of what our major competitors are getting up to that they will have improved their pricing algorithms, their risk selection. And therefore we will -- we have to expect to see some closing of the gap, if they're executing that well. But I don't think we can see any evidence to support that yet. And these are -- if that were the case, then I think we would be seeing patterns of development across our claims experience, across the portfolio, somewhat more significantly than we are seeing.

So these are small numbers of claims that are behaving in a way that says there's a few more of them in this quarter. And that's not evidence enough, in my opinion, to suggest that somehow others have been -- have cleverly picked out where these few more claims are going to come from and have managed to avoid them and, therefore, they've been dumped on Admiral.

If this pattern continues at a much higher level for a significant length of time, then maybe that prognosis would -- could be justified. But I don't think there's enough evidence to suggest that to date.

And on the reinsurance point, I think I would say that, as I said in my comments earlier on, we are -- having seen this disappointing development in 2011, we're writing business now with an ultimate combined ratio in the mid-80s, is our view. And that is clearly a long way away from 102%. And the action we're taking, together with our view of how the future develops suggests to us that we should be able to maintain that kind of position and that kind of advantage over the market, or at least a good part of that market, going forward.

So there's -- we're a very, very long way from anything that could suggest a challenge to the Admiral model with its reinsurance structure because we're still many, many points away from anything where the reinsurers would have to consider whether they're likely to be paying out on adverse development.

We have had, of course, conversations with our reinsurers over the last few months as you would expect, as we regularly do. And they are fully aware of the claims development patterns that we're seeing over the course of this year and in the Third Quarter. And I have to say that those conversations with the reinsurers have been very relaxed about what they're seeing.

They expect to see some volatility. They understand the nature of these claims and the nature of our market. And they expect to see some volatility in claims patterns, on large claims. And there's nothing in what they're saying to us which suggests there anything other than comfortable with the continued participation with that structure.

Q - Paul Goodhind {BIO 16200839 <GO>}

Thanks.

Operator

Next question.

Q - Adrienne Lim {BIO 16537674 <GO>}

It's Adrienne, Morgan Stanley. Just a couple of questions. So can you just talk about what expectation? You said that for 2011, you would expect the 81% combined ratio to move towards 85% -- mid 80s.

And can you also elaborate what your expectation of 2010 loss ratio is? You haven't changed it in the slide on page 14, to go to it [ph]. Some quantum of that would be very helpful.

And also, can you just elaborate a little bit what's really changed in Third Quarter? I know you said it's randomness. But given you increased the 2010 loss ratio by 4percentage points in the half year, what's really moved from that expectation?

And the last question, it's just on claims inflation. Can you just tell us what level of claims inflation you're currently reserving for 2010 and 2011, please?

A - Kevin Chidwick {BIO 15100612 <GO>}

Thanks, Adrienne. I'll just say that I've got Henry Engelhardt and David Stevens here with me on this call as well. So I'm going to hand over to David, I think, to give you an answer on that one.

A - David Stevens {BIO 6807391 <GO>}

Hi, there.

Q - Adrienne Lim {BIO 16537674 <GO>}

Hi there.

Operator

Ladies and gentlemen. this is the operator. I'm afraid we've lost the connection to the moderator's line. So we'll just stand by and we'll wait to re-establish his line.

A - David Stevens {BIO 6807391 <GO>}

Hello. I'm sorry. David Stevens here. We -- sorry, we got cut off there. I hope Kevin had made the introduction to say that I was here. And I'm just asking -- answering the questions, the last question around 2010/2011 and claims inflation.

First of all, the slide on page 14 is the replication of the slide of the half-year, using the half-yearly actuarial projections. Kevin said 2011 probably at the end of the year come out towards the mid-80s. 2010, probably up a little from the half-year, nearer 90% than 88%; but, yes, still up a little.

Claims inflation; what we're seeing, at the half-year the claims inflation numbers implied by the actuarial projections were 11% for 2010 versus 2009. And 17% for 2011 versus 2010. And that's essentially driven by the bodily injuries side of the equation and not the material damage side of the equation. But as Kevin was obviously saying, those numbers, in a sense, are heavily provisional in the sense that very, very little of these bodily injury cases are actually settled.

Q - Adrienne Lim {BIO 16537674 <GO>}

And in terms of the what's really changed in the three months since we last heard from you?

A - David Stevens {BIO 6807391 <GO>}

Well it's really, it is primarily the number of larger claims. And the average value of those larger claims relative to what we were expecting at the half-year. And relative to past patterns for our accounts. And given that 2011 is an accident year, in a sense you're getting 50% more data. And you're getting a year that is very under-developed. And in nine months into the actual year, let alone having had any tail, the actual experience of one quarter is quite material in trying to assess the likely outcome for that year.

Q - Adrienne Lim {BIO 16537674 <GO>}

Okay. So -- and frequency is something that you're highlighting now, where perhaps you didn't really highlight in the half-year. So is that something which is driving --?

A - David Stevens {BIO 6807391 <GO>}

That was particularly a reference to the frequency of larger claims.

Q - Adrienne Lim {BIO 16537674 <GO>}

Yes. Okay. Thanks a lot.

Operator

We now move to our next question.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane. Couple of questions, if I can. The first one, I guess on the large bodily injury claims, the problem is. And I guess the difficulty is just to judge whether it is a random quarter or not.

Obviously, Direct Line and RBS put through a whole heap of charges for specifically this issue; and I know your comments about market reacting in the same way. And seeing the same trends. But is it a possibility you actually lag the competition on this particular factor?

And given that they experienced it for more than a couple of quarters of a strengthening of large bodily injury claims, is there a danger that this continues on for a few quarters? And have you seen any change in Q4 to date?

Thank you.

A - David Stevens {BIO 6807391 <GO>}

I think the issue we're asking about them in terms of the market is whether there is an increase in frequency of big claims, particularly in 2011. RBSI made a very significant reserve-strengthening, much more significant than the other players in the market during the course of 2010, particularly in relation to claims 2009 and prior years. And so in a sense, the strengthening that RBSI was putting through during the course of 2010 related to a different time period.

What we're looking at here. And what we're seeing is this feature of a number of large claims, particularly during the course of 2011 calendar year. And so in a sense you -- it's not comparing like for like there.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. And on the Q4?

A - David Stevens {BIO 6807391 <GO>}

I'm sorry, I missed that part of the question.

Q - Andy Hughes {BIO 15036395 <GO>}

I was just wondering how they've progressed since the end of the quarter. Has there been any change since the end of the quarter?

A - David Stevens {BIO 6807391 <GO>}

I don't know if we discuss month-by-month numbers, really.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thanks anyway.

Operator

We now take our next question. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot, Berenberg. First of all, on -- you talk about the 2010 and 2011 years as being the ones perhaps that you're most concerned about. But just looking at slide seven and the numbers on that where you said that you've only paid out 8% of the large claims in respect to 2009. And only a quarter of those going back as far as 2007. I'm just wondering to what extent we should perhaps also expect to see some developments from those periods. Perhaps you could just talk about how comfortable you feel about those.

Then the second thing I wanted to ask, on slide 13 you make the point that you're still growing faster than the price comparison market as a whole. I'm wondering if you can just say how that was looking in Q3 in isolation. And you've touched on perhaps a slowing of growth going forwards. But whether we should expect that in the near term in terms of your growth in that -- through that channel to slow significantly, going forward.

Thanks.

A - David Stevens {BIO 6807391 <GO>}

Yes. If you come to the Investor Day later on today, or the Analyst Day later on today, you will see more slides. And one slide you will see is a slide that follows on from page 8. Page 8, the slide demonstrates a volatility is from 5 to 24. And demonstrates that the volatility very substantially reduces between 24 and 48.

And essentially what happens with these claims is there is typically a period of significant uncertainty around the -- often the extent of the person's injuries and the nature of the -- whether they're going to go back to work, how much care they're going to need, how aggressively the case will be pursued. But within a couple of years, you typically get a much better set of data about the injury case.

It doesn't however then pay immediately. It then goes through a process which can take a long time. As you can see from page 7, it's only by sort of 2006 that you've actually got the majority paid. But the period of maximum uncertainty is the first two years; and then uncertainty very much reduces. That's not to say that 2009 is by any sense a done deal. But it would be misleading I think to take the 8% and imply 92% uncertainty.

Q - Peter Eliot {BIO 7556214 <GO>}

Can I just come back on that quickly and add in with respect to PPOs, given that you mentioned that you haven't seen a lot of those coming through? We've heard from competitors that the average time period there is probably four years or so for one to actually know what one's paying on that. So I'm wondering whether that might change the picture slightly as those come through.

A - David Stevens {BIO 6807391 <GO>}

Well I think we're in a pretty strong position on PPOs. Essentially, we've got a reserve which is now knocking on the door of GBP120 million which is specific for PPOs. And which our advice from external advisors is a pretty cautious amount of money to hold against the PPO risk. And it's essentially the equivalent of covering us to a discount rate reduction on Ogden to about 0.5%.

We track PPOs very closely. And we have a number of claims that we identify as high-risk claims of turning into a PPO. And you're very right that the lead times on these things are very substantial. So far, our experience has been that roughly 25% of the high-risk cases turn into PPOs. We anticipate that much more than 25% over time will turn into PPOs. But that the GBP120 million that we currently hold is adequate, more than adequate in that context.

Kevin, do you want to handle the second part on growth?

A - Kevin Chidwick {BIO 15100612 <GO>}

Yes, sure. The second part of your question, Peter, was what's the specific growth in the Third Quarter and what does it look like now as it's a whole year. And I think growth in the Third Quarter is just over 3%. So the growth that we're seeing on an annualized basis for Q3 in isolation is about 13%. Our growth for the year to date would be something in the 20s, because we grew at about 30% or so in the first half of the year.

So the Q3 experience is somewhat different to the first-half experience. And that partly reflects that raising of rates that I talked about earlier on. And partly reflects a deliberate strategy to reduce the growth, given what we're anticipating is high levels of competition in the market from here on in.

And I think what we're now expecting, or certainly that will be our prognosis for the Fourth Quarter as well, is something similar. So we are expecting to grow roughly in line in the second half of this year with the growth that we're seeing in price comparison sites, which you referred to, which is somewhere around 10% to 12%. That suggests that we're roughly on a good growth trajectory now which is more akin to the levels that Admiral has typically grown at over the years.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. So that sounds like you think you'll be able to maintain the share of price comparison business that you've won over the last year or so?

A - Kevin Chidwick {BIO 15100612 <GO>}

Well we're always cautious about given market share forecasts or even commenting on it, because we do try and run the business in the way that's whatever we think is the profit maximizing thing to do. At the moment we'd say we anticipate growing by about 10% or so next year. And we anticipate the profit price comparison sites growing their market share again next year. But if the context changes and the competitive environment looks very different, then we may take a different view.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thanks a lot.

Q - James Pearce {BIO 16758460 <GO>}

James Pearce, UBS; a couple of questions. Could you give us more detail on the specific areas where you've targeted your increased rating; how much, what sort of people. And so forth?

And secondly, is there scope to address claims volatility through more targeted excess of loss reinsurance?

A - Henry Engelhardt {BIO 3022947 <GO>}

James, I will jump in on the first one; no, we won't give out detailed information of price hikes, sorry.

Q - James Pearce {BIO 16758460 <GO>}

Okay.

A - Henry Engelhardt {BIO 3022947 <GO>}

And the second question is --?

A - Kevin Chidwick {BIO 15100612 <GO>}

Reinsurance. Not hugely. The vast bulk of the value of claims is in the range of GBP100,000 to GBP5 million. And yes, we could go out and buy reinsurance down below our current levels, which are typically, depending on the year you're talking about, GBP5 million to GBP7.5 million. But it comes at a price. And it's not necessarily the optimal thing to do.

Q - James Pearce {BIO 16758460 <GO>}

Okay. Thanks very much.

Q - Andrew Crean {BIO 16513202 <GO>}

It's Andrew Crean. A couple of questions. First one is these large claims, GBP500 million to GBP700 million large claims which you're getting. Can you identify whether they're coming from business which you've put on the book since 2009; i.e. whether they're part of the expansion of the business or the in-force business which you've had on the books for a long time?

And secondly, in that slide where you've looked at the proportion of claims which are large claims, which has risen from 14% to 15% up to 26%, do you have a sense, I think it's slide 7, as to where that might settle?

A - Kevin Chidwick {BIO 15100612 <GO>}

Sorry, David, do you want to --?

A - David Stevens {BIO 6807391 <GO>}

No, you go ahead.

A - Kevin Chidwick {BIO 15100612 <GO>}

Okay. I think on where the claims are coming from, the answer is it's coming from across the portfolio. It's clearly because we've grown so much. And we do tend to lose about one-third of the business out the back door each year, which is generally what the market does.

There's obviously a bias towards younger policies in the portfolio. But the claims experiences of these larger claims is coming across the portfolio. And it's coming across renewals and new business. But it's not anything in particular that you'd isolate.

And in terms of where they would ultimately settle, I'd say it's clearly the case they're a bigger proportion of the book than they used to be. And they will settle higher than they did back in 2007/2008 times. But it's probably -- these are case reserves we're talking about here. So by their nature, you tend to see an unwinding. That's part of the reason why we have this negative IBNR which we'll talk about later today. You'd expect to see some of this unwinding. But ultimately, it will finish higher than it used to be.

Q - Andrew Crean {BIO 16513202 <GO>}

Right, okay.

Q - Unidentified Participant

Hi, it's Andy again. I just wanted to follow up on Paul's question earlier about the reinsurance structure. I guess my question is slightly different. You mentioned that the reinsurers obviously won't experience a loss ratio of more than 100 [ph]. So not have to pay anything on the adverse claim development. But obviously, that has a knock-on consequence for you, because when you are strengthening reserves, that clearly means you need to pump equity into not just your own 27%. But also the reinsurers' bit as well. Does this change the view of the volatility of the business that you're seeing at the moment? Does it change your view of the relative attractiveness of coinsurance and reinsurance and general equity?

And with that in mind, is the level of equity that you have appropriate to run the adverse development on the reserves? I understand obviously you're posting an 81% combined ratio in the first year. And that's great. But subsequently, if that turns out to be a lot higher, you don't obviously recover that money from the reinsurers on the back years. And I'm just wondering, have you thought the business is perhaps a little bit more risky than it was than it was, it seemed a year or two ago?

Thank you.

A - Kevin Chidwick {BIO 15100612 <GO>}

No. The answer to that question is a straightforward, no. The results are disappointing relative to where we hoped the results would be. But the results are still very, very good relative to the market. And they are still lower than we were writing in business when we were producing results in the mid-2000s.

So at that point we were very confident or comfortable that our coinsurance and reinsurance model is a very powerful way of structuring the business in terms of being able to support the premium growth and a cheaper form of capital than equity. And it supports a strong dividend. And that's still the case today. And there's nothing in this data that changes that view.

Q - Unidentified Participant

So you don't think you need to hold back more capital in respect of the reinsurance portfolio in fact, for example, you would do on the coinsurance portfolio where you don't have the possibility of negative profit shares coming for you in future?

A - Kevin Chidwick {BIO 15100612 <GO>}

Well that's reflected in the reserves that we're setting in the book numbers. And as you know, we tend to book somewhat conservatively relative to our peers. And book loss ratios that are well ahead of these projected ultimate’s that we're talking about. And all of the conservation this morning has been about the development of those projected ultimate’s.

It will mean that we anticipate not making reserve releases in the second half of this year. But it doesn't mean that we're talking here about any significant reserves of strengthening. We still have what we believe is adequate reserves. And within -- therefore within the reserves is the capital that we anticipate needing to support these changes.

Q - Unidentified Participant

Okay. Thank you.

Q - Chris Esson {BIO 6194371 <GO>}

Chris Esson, Credit Suisse. I've just one clarification, if I might. On your discussion, or your comment about targeting 10% growth in 2012, can I just clarify whether that's for the UK only, or whether it also includes the international operations where your profitability is relatively low?

And just perhaps following on from that, can you just provide a sense of what you're expecting from an industry point of view, given your presentation clearly outlines that you are putting prices -- or your pricing trends are higher than peers if you like incrementally? And I just wondered whether in fact the implied market share gains by your growth target are perhaps a bit ambitious.

A - Henry Engelhardt {BIO 3022947 <GO>}

The answer to the first question is that's UK.

Q - Chris Esson {BIO 6194371 <GO>}

It's just UK 10%.

A - Henry Engelhardt {BIO 3022947 <GO>}

That's UK, yes.

A - Kevin Chidwick {BIO 15100612 <GO>}

On the second question, essentially, if we maintain our current level of competitiveness on price comparison sites. And price comparison sites grow in line with the market, our expectations for that market, then we'll end up with growth in the UK in unit terms somewhere in late single digits or early double digit percentages.

Now if our competitiveness changes versus where it is today, then we'll write less or we'll write more, depending on what that change is. And certainly, if in a sense -- if other people were seeing some trends that meant they held the premiums flat or increased them, then that would have an implication for us. If other people took their premiums down in 2012, that would also have an implication in the other direction for us in terms of the volumes we'd write.

Q - Chris Esson {BIO 6194371 <GO>}

Okay. Thank you.

Q - Marcus Barnard {BIO 2103471 <GO>}

A couple of questions, firstly on the dividend. Can you say what today's statement means for your ongoing level of dividends? In particular, will you continue to pay an ordinary and special dividend in the high 90s of your earnings for 2010 and 2011?

Secondly, we've been hearing in the market that you're doing an actuarial review of your reserves. Can you explain what the scope of this review is and when we're likely to hear on it?

And following on from that, on slide 14 you say that the -- the notable change on slide 14 is that you've got an independent actuarial projection as opposed to Ernst & Young previously. Is that still Ernst & Young, or is it a different set of independent actuaries?

Thanks.

A - Kevin Chidwick {BIO 15100612 <GO>}

Dividend impact, nothing changes. I think we should step back and put this discussion into some context here. We're seeing a bit of a deterioration on our loss ratios for the '10/'11 years. It means that our combined ratio will be in the 80s. It means that our business is going to be a little bit less profitable that we hoped it would be. But it's still going to be 10% up on profits in 2011.

And our dividend policy is very explicit. We pay out all the spare cash that we generate we don't think we need to support the solvency requirements of the business. That view is informed by what we think we needed in terms of capital going forward. And including our international development.

But notwithstanding those comments I'd anticipate no changes to our dividend policy, which is deliberately split [ph] in normal and special [ph]. So give us that flexibility. But otherwise, nothing changes.

In terms of the actuarial review, of course, we are taking this development of large claims extremely seriously and wanting to get as much data as we can to understand the nature of the developments. And so we did conduct a review ahead of this announcement to help us inform what we're speaking to the market about today. But it will not be our intention to share with the market every time we do some analysis of our claims, partly because of the volatility that we've talked about earlier.

So we will, of course, be disclosing our projected ultimate’s at the full-year end, as we do every time. And we very much encourage our competitors to do the same thing. But we won't be doing it every quarter, or every time we have a look at it.

Q - Marcus Barnard {BIO 2103471 <GO>}

So just to be clear, the actuarial review is concluded?

A - Kevin Chidwick {BIO 15100612 <GO>}

Yes.

Q - Marcus Barnard {BIO 2103471 <GO>}

And was that by Ernst & Young?

A - Kevin Chidwick {BIO 15100612 <GO>}

It is the case that Ernst & Young are our actuarial advisors. But it's obviously the ownership of those numbers rests with us, not with anybody else.

Q - Marcus Barnard {BIO 2103471 <GO>}

Okay. Thanks.

Operator

As we have no further questions, I'd like to hand the call back to Mr. Chidwick for any final remarks.

A - Kevin Chidwick {BIO 15100612 <GO>}

Okay. Well thank you very much for listening this morning and for your questions. We will be holding sessions later on today as well in which we'll go into some more detail around the issue of the large claims particularly. But also on any other aspects of the business.

So I look forward -- so those of you who are coming along later today, I look forward to seeing you later. Otherwise, thank you very much.

Operator

Ladies and gentlemen, that will conclude today's conference call. We thank you for your participation. You may now hang up.