S2 2013 Earnings Call

Company Participants

- Cristina Nestares, European Managing Director
- David Stevens, COO
- Geraint Jones, Head of Finance
- Henry Engelhardt, CEO
- Kevin Chidwick, CFO

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Chris Esson, Analyst
- Fahad Changazi, Analyst
- Greig Paterson, Analyst
- Marcus Barnard, Analyst
- Peter Eliot, Analyst
- Ravi Tanna, Analyst
- Simon Denison-Smith, Analyst
- Tom Dorner, Analyst

Presentation

Henry Engelhardt {BIO 3022947 <GO>}

Good morning, everybody. Welcome to Admiral's H1 2013 results presentation. I'm Henry Engelhardt, Chief Executive Officer. Thank you for joining us this lovely morning.

This is the agenda for this morning. You'll see it's a pretty full agenda. There are two differences I'd like to highlight on this agenda from previous agendas.

First, you'll notice we have a couple of special sections reserved for non-UK Insurance business results and analysis. This is because we've listened to you. I know you wanted more information about our non-UK Insurance operations. I wouldn't say we're going to give you lots of information, but we're certainly going to give you more information. So it is in response to your desire to hear a little bit more about these.

The second difference is that you'll notice a couple of new speakers added to the rota here; Geraint Jones, our Deputy CFO, and Cristina Nestares, our European Manager. We have a very deep, talented senior manager team, and we think it's about time that they came in front and showed themselves as well. And we'll be moving a number of managers through in this way in future reporting periods.

Right. It's about the results, and the most important result of the result is the result, and the result is GBP181.4 million in profits. That's a record half-year profit; up 6% from the previous equivalent period, H1 2012. We're very pleased with this result.

It produces this graph. I think you'd agree that this is a very enviable track record, and I doubt that there are many other companies, much less yet insurance companies, that could boast an increase in profits every year for the last eight years. So we're very proud of this track record of ever-increasing profit in our history.

Another -- a few of the details though on those results. The earnings per share did rise in line with the profits. The dividend, up slightly more; it's 48.9p. That's a record dividend. It does mean that if you annualize it and you round it, it's kind of GBP1, and that makes it pretty easy to figure yield.

Turnover did drop. This is largely due to a drop in average premiums in the UK business, in the UK Insurance business, and David will talk more about this in a few minutes.

The vehicle count did rise, and that is entirely down to a rise in the vehicle count outside the UK. The UK was flat. The increase came from the operations in Spain, Italy, France and the US.

Return on capital, 57%.

The key messages really come down to the efficient use of our shareholders' money, represented by that 57% return on capital. Highly cash generative; we have now returned GBP1.35 billion to shareholders since we went public in September 2004.

The UK, a competitive market environment; not telling you anything you don't know. This isn't the time for us to grow. We would have to cut into margins quite a lot to accelerate growth in this period. However, we are enjoying some positive developments in our claims experience.

And you will see in the results quite large releases; not large in a historical context, but certainly over the last few reporting periods, this is a much larger release. And I think it's worth noting that our margin over best estimate has actually increased despite these large releases.

We're making good progress in our International business. I wouldn't say that the results are stunning; I wouldn't say that the growth is stunning. But we are moving forward. We have an increase in the vehicles insured. We continue to improve the combined ratio, and within that, the expense and loss ratios of the individual entities. And it does now account for 9% of Group turnover.

Price comparison. 22% increase in profit; GBP9.9 million in total. Most of that obviously coming from Confused. I'll talk more about that in a little while; but also, Rastreator and LeLynx in Spain and France respectively had very good respective first halves.

Great. That's the brief summary. I'm now going to turn it over to Geraint Jones, our Deputy CFO, to talk more about those financial results, and I'll be back later. Thank you.

Geraint Jones {BIO 4335136 <GO>}

Thanks, Henry; and morning, everybody. A really quick introduction before we start because I don't know all of you. As you can see, but probably not pronounce, I'm Geraint Jones. I'm the Deputy CFO. I've been at Admiral for 11 and a bit years within the Finance area. Before Admiral, I was at KPMG; and before that, I was at Ernst & Young. And I took up my current role at the start of 2012.

My slides this morning will go into a bit more detail on some of the key financial highlights. We'll take a quick look at capital insolvency, and we'll end up on the interim dividend.

First, a couple of the Group financial highlights. This chart shows the component parts of the Group's turnover. As we saw earlier, the GBP1.1 billion or so in H1 2013 was 7% lower than H1 2012. This chart hints at what's going on in the underlying figures.

UK Car Insurance obviously continues to dominate the total. It's contributed 85% in H1 '13, down from 88% last year. UK turnover fell by 10%. More on that very shortly.

Offsetting that is an increase in the share represented by International Insurance, which increased from 7% to 9%, as turnover there rose by 20%.

Price comparison revenue rose by around 8% to nearly GBP60 million, and continued to make up 5% of the total.

And the right-hand chart sets out the contributions to Group profit made by each of our business segments. Our core UK Car Insurance business again makes up 106% of the total. That business made GBP193 million in the first half of 2013, up 5% on last half year. That was mainly due to an improved combined ratio following the positive claims experience for the past 18 months or so in the UK. That combined ratio moved down to 81% from 90%.

The light blue, 6% at the top, is the profit made by our Price Comparison operations, and again, pretty consistent with last year. Overall, these businesses made GBP10 million in the first half, up a very positive 20% on last half year. And as Henry will talk a bit about later, that came on the back of higher profits at Confused.com, as a well as a small profit in our combined European operations, Rastreator and LeLynx.

The light green 6% below the line is again pretty similar in relative size to last year; represents the losses in our International Car Insurance businesses, Admiral Seguros in Spain, ConTe in Italy, Elephant Auto in the US, and L'Olivier in France. Each business grew, and the overall combined ratio improved to 152% from 168%, though as a result of the increased size, the loss increased to GBP11 million from GBP9 million in H1 last year.

Finally, the red 6% represents everything else, and mainly, that's the charge for Admiral share schemes. I'm sure everyone in the room knows by now Admiral is a strong believer in the alignment of interests that results from widespread share ownership within the Company. And all Admiral staff either are, or very shortly will be, shareholders.

These next two slides will go into a bit more detail on the UK Car Insurance result. My first point to note on this slide is the 10% fall in turnover you see on the left which is predominantly due to the 8% reduction in total premiums you can also see.

As we have said regularly in the past, we manage our UK business to maximize profits, not market share; and we've kept the vehicle count in the UK pretty flat over the past year, reflecting the competitive environment. The 8% fall is due to a combination of rate cuts, and also some shift in the portfolio, particularly at new business; and David will talk a bit about that shortly.

The next important point to note is the improvement in the loss ratio you see on the right. Claims experience over the past 18 months, as I say, has been positive, and that's led to improvements in the projected loss ratios, and consequently, higher reserve releases that we've seen in recent years. Releases on Admiral's net underwriting share were equal to 14% of premiums in H1 2013, up from 4% last year. And the reported loss ratio improved by 10 points to 67%, as you can see.

It's important to also note that the margin held in claims reserves above the projected best estimates is higher in relative terms compared to the end of last year.

The written basis expense ratio is around 1 point higher, largely as a result of the lower average premiums. And as you can see from the dotted lines, both ratios continue to compare favorably to the market numbers.

What does all that mean for the UK result? Well, this next chart shows the component parts of the UK profit in H1 2013 versus H1 '12, and as you can see, UK Car Insurance profit was up 5% to GBP193 million. And this was mainly driven by the higher underwriting profit and profit commission on the back of the higher reserve releases. There was a reduction in other revenue, which largely resulted from lower referral fee income.

As the final bullet point on that slide says, we've reanalyzed the numbers to make them more comparable, and there's a slide in the appendix which shows you what we've done. We're happy to take questions on that later or talk about it after the presentation.

This slide shows some of the highlights from our four International Insurance operations, and as the left-hand charts demonstrate, these businesses continue to grow. 20% increase in turnover, a 15% increase in premiums written and a 25% rise in the number of customers, just shy of 0.5 million.

The difference between the increase in customers and premiums reflects lower average premiums in one or two of the operations in the first half of the year. More on that later.

The combined losses from these operations amounted to GBP11 million this half year, up from GBP9 million in H1 2012, and that's mainly a factor of the growth in the earned premium. But there was a positive move in the combined ratio, as I say, which improved to 152% from 168%. H1 2013 loss was materially lower than the GBP16 million loss in H2 last year.

Our International operations account for 13% of Group vehicles, 9% of Group turnover, and the losses this period amounted to 6% of Group profit before tax. More detail on that from Kevin and Cristina very shortly.

Next up, some brief comments on capital and solvency. As will hopefully be familiar to you, Admiral has consistently generated high returns on capital for many years, and hopefully, the key reasons we're able to do this will be familiar too, but here they are again.

High levels of profitability and extensive use of co and reinsurance are probably the main two. And speaking of reinsurance, as we announced earlier this year, we announced extensions to our UK reinsurance arrangements so that capacity is fully placed up to the end of 2015. And again, there were no notable changes to the terms on those extensions.

But of course, to be capital efficient doesn't mean Admiral isn't a strongly capitalized Group, and this slide on the -- chart on the right, sorry, shows this. All our capital continues to be in Tier 1 equity. Our Insurance Group's directive solvency coverage ratio at the end of June 2013 was 360%. Even after taking account of the interim dividend, the ratio still stands at 250%.

And speaking of dividends, this slide shows how we've arrived at the interim distribution for 2013. And as always, our philosophy on dividends is to return to shareholders what we don't need to keep within the Group.

Calculation starts with our capital, total equity less goodwill of GBP428 million. From this, we deduct our regulatory capital requirement of GBP264 million. And remember, this is projected one year out and takes account of international expansion, as well as growth in new lines of business such as household and additional products; and of course, the core UK Insurance business. That leaves GBP164 million potentially distributable. From that, we take a further buffer of GBP30 million, and you get to the GBP134 million, which is the interim dividend. And that equals 48.9p per share.

That's an 8% increase on the interim payment from 2012 and, as always, is split into a normal part and a special part.

Normal element is based on 45%, as always, of post-tax profits. That equals 22.5p per share. And the special part, which is incidentally the 18th time out of 18 dividends since we floated we've paid a special dividend, at 26.4p. And the payment date is October 11.

Now I'll pass you over to David who will talk more about the UK.

David Stevens {BIO 6807391 <GO>}

Thank you, Geraint. I'm going to talk about the market as a whole first, and then go on to talk about Admiral's performance within that market.

The most striking feature in the market in the first half has been the continuing rate cuts. On the left-hand side here you see the Confused/Towers Watson Index, which is showing an 8% fall in rates in the first half.

Now I would caveat that by saying it's slightly distorted in terms of quantum and timing. One of the distortions is that a lot of the prices that have driven that in the second -- in the first half have been telematics prices, where the number of brands and the footprint of those brands has increased during that period. And those prices are only available to people willing to accept a box in their car, which at the moment is a minority of the market as a whole, and actually a minority of those to whom telematics products are offered.

The other distortion is a timing one driven by the gender directive in December, where in the First Quarter, a number of players stood back from the young driver market. They essentially increased their rates for young women but didn't reduce them for young men. So if you were to ignore the young driver market, what you would see is 2% to 4% cuts in prices in both the First Quarter and Second Quarter, but the young driver segment went up in the First Quarter. And then, as people saw what was happening on the gender directive and re-entered the market in the Second Quarter, the young driver segment went down substantially in the Second Quarter.

So some timing and some exaggeration of quantum perhaps, but it doesn't take away from the fact that prices have been falling rapidly now for 24 months, a total of 20% over that period.

So what's driving that? Well, the main reason is that there are players looking to grow market share, and there are very, very, few players willing to shed market share at this point. People are experiencing attractive levels of profitability on those years which were impacted by the very rapid increases in rates in the middle of 2009 to the middle of 2011; and those historic profits are encouraging people to fight for market share.

And the other thing is I think the animal spirits of underwriters have been lifted by the claims reforms of April 2013, perhaps excessively so in our view. So I'll just expand on both those points briefly.

One way of looking at who's looking to grow and who isn't is to look at where we lose business to at renewal, where our lapses go to, and that's something we do track. On the left-hand side, you can see the percentage of lapses that go to our main competitors.

Now it's only a partial view of competitiveness because it's possible that some of these players may have been shifting their portfolio towards our portfolio, but that's not -- really not that big a distortion because we do compete across the whole market. And there is also a question mark, because sometimes people will declare to us they've gone to the AA or Swinton and they won't tell us the underlying insurer. And so you can find that this understates the importance of the 25% of the market that belongs to broker insurers.

But it still gives some sort of feel, especially if you combine it with a ratio of where we lose business to versus the market share of the existing players. So, on the left-hand side you see AXA and Direct Line and Hastings are the biggest players in terms of where we lose business to. But when you adjust it for their market share, you see that in fact Direct Line, as is consistent with their announced results, aren't being particularly aggressive relative to their market share; Hastings, AXA and Esure probably growers in the first half.

And what's the situation on the claims front? Well, it has been a benign two years or three years in terms of overall claims frequency. And what was particularly striking about the recent past is the fall in overall frequency in 2011 and '12, way below the trend rate of frequency fall that we saw in the first decade of this century.

Now you might expect some sort of bounce back in 2013 back towards trend, but actually, we aren't seeing that. 2013 frequencies, overall frequencies to date flat, slightly down.

Perhaps more importantly in terms of people's perception in the market, there has been in the last couple of months an interesting drop in frequency on bodily injury claims, small bodily injury claims, essentially driven by the change in regulation. And we'll have a look at that in a bit more detail.

This shows the number of new notifications of small bodily injury claims, and you can see that in the second half of 2012, they increased year on year by on average high single digits. And then in May of 2013, and June 2013, for the first time in living memory in a sense, substantial falls in frequency of bodily injury claims.

But it's very, very, early to get excited by that in our view. There's a very plausible argument that says this is just a mirror image of the increase in bodily injury claims seen in the market in March and April as lawyers rushed to register claims at a level that gave them the maximum possible fees. And it's far too early to say that the reforms which will drive, through the fall in legal fees from GBP1,200 to GBP500, will drive a fall in average cost. It's far too early to say that it will drive a fall in frequency.

Now we do believe that -- I think also we feel that it's very easy to exaggerate the impact of small bodily injury claims. A lot of the consumer press focus and the regulatory focus has been on whiplash, but we would remind you that the under-GBP10,000 claims account for a small low double-digit percentage of our overall claims costs, and larger claims are much more material. So even if there is good news on small bodily injury claims, it's not necessarily the case that one should get that excited about it.

We also feel strongly that the claims management sector and claimant lawyers have got a very strong track record of adapting their business systems to new regulatory context and that there's a material possibility that the trend of increasing bodily injury claims in the market will be interrupted but not ended.

And an interesting analogy, although an imperfect one, is what happened when the portal for bodily injury claim notification was introduced in April 2010. And what this graph on the right-hand side shows, market bodily injury claims frequency. And you did see after the portal introduction, maybe not causal, it may be coincidental but it did happen, a plateauing off of new bodily injury claim notifications and a flat frequency. But pretty soon thereafter, the world returned to its norm of rising bodily injury frequency, as you can see for the 2011 and '12 numbers.

So overall, our view of the market is that people are perhaps being too optimistic in their rating decisions, biased by historic profits rather than current profits and biased by I think an overly optimistic view of the impact of regulation on claims cost. And that leads us to anticipate a relatively short and sharp cycle for the UK car insurance market. This is entirely illustrative of a direction, so don't extrapolate out from '13 or '14.

It's really just saying that we think the worst point of the cycle in terms of reported profits is likely to be sooner than one might have anticipated from historic norms; maybe 2015, maybe late teens. And that does mean that in our view, it's going to be probably inappropriate for Admiral to seek to grow its book at least for the balance of this year and 2014 until perhaps the point comes when rates start to turn, which on this view of the market, would probably be towards the back end of 2014.

So that's the market. Going on to Admiral's performance within the market, it does not make sense for us entirely to stand back from the market in terms of rate cuts, but nor does it make sense for us to follow the market down as aggressively as it's been going down in the last 24 months. And so what we have done is reduced our rates somewhat; 7% on new business versus 15% for the market as a whole, according to the Confused/Towers Watson, over the last 12 months.

That's led to our competitiveness falling. On the left-hand side, you can see the percentage times top on price comparison sites indexed against 2012 at 100%. And in the First Quarter, we're down 16%, our percentage times top, and a further 8% in the Second Quarter.

Now our average premiums on new business, down 10% versus the first half of 2012, which is more than our modeled rate cuts. The reason for this is there has been some portfolio shift towards lower premium elements of the book, partly driven by our own relative rate changes, but in fact more heavily driven by the actions of others who have moved more into the higher premium segment, which is a pretty standard feature at this point of the cycle where people seek to protect their turnover by moving into higher risk areas. Our average renewal premium meanwhile is down 3%.

So the business is flat in terms of volume and the average premium is down materially, and yet our profits are up. How has that happened? Well, essentially it's happened because our combined ratio has improved significantly.

On the left-hand side here, you see our reported combined ratio in blue, versus the markets in red. For those of you who prefer an ultimate look at these numbers, that's in the appendix.

What you see in the first half of 2013 is a return to the combined ratios in the early '80s that we were experiencing through much of the last decade. And the main driver of this is a return to a material level of reserve release, again, as we were experiencing through most of the last decade, but not as we experienced in 2011 and 2012. And that's a reflection of the good news on the back years in terms of how they've evolved and the relatively benign claims outcomes on those years. And we've been able to make that 14% release and still maintain, or slightly increase, actually, our margin over best estimate.

What I should say on this before I move on actually is that there has been an accounting change that has some impact. In 2012, you'll recall that we introduced vehicle commission in replacement for motor legal expenses, and we've been seeking to account for that in the way that best reflects the economic reality. We made a change in the first half of 2013. Had we accounted for vehicle commission in the same way in 2012 as we do now, the combined ratio in 2012 would have been 88%.

So the change in accounting has been good news for the combined ratio, and yet it is entirely profit neutral. That means it must in a sense have an offsetting piece of, inverted commas, bad news. And that lies in the other revenue line. So what I'm going to do now is talk you through the evolution of other revenue in the first half and how it might be expected to evolve for the full year.

So the accounting change we've made on vehicle commission is essentially vehicle commission payable on the 25% of the business that we underwrite ourselves is no longer treated as other income. The impact of this is to reduce reported other revenue per vehicle by GBP3 in the first half.

There's another accounting or timing type difference that in moving to underwrite our own add-ons, there is in effect, a timing effect on profit recognition. When they were 100% underwritten externally, they could be recognized fully, all the revenue on a written basis. Now that they are underwritten in-house, a proportion of that revenue has to be recognized on an earned basis, and that's cost us GBP2 in the first half.

Meanwhile, we've also, as has been flagged a number of times in the past, begun to experience the impact of the ban of referral fees that came in April of this year. That's so far cost us GBP2. And offsetting that has been a series of individually very small changes that have added GBP1. So netting those off, the other revenue per vehicle goes from GBP79 to GBP73.

How might that evolve for the full year? Well, in the full year, there will be the full impact of the Vehicle Commission change, which will be GBP6 for the full year; so a further GBP3 coming off. The timing difference on the underwriting of additional products will unwind, which is beneficial to the tune of GBP2. And we will experience a half which has a full impact of the personal injury referral fees, so a further GBP3, giving a total of GBP5 for the year as a whole.

When you combine those all together, essentially what it boils down to is that our expectation, all other things being equal and they never are, is that the full-year other revenue per vehicle will be down roughly GBP10 versus 2012, roughly half of which is a result of the accounting change in vehicle commission, and roughly half of which is the impact of loss of personal injury referral fees.

So in summary, it's a competitive market, but claims trends are positive. We've continued -- we've reduced our own prices in 2013 but have lagged the market. We've been able to return to[ph] significant levels of reserve releases while also maintaining or slightly increasing our margin over ultimate. And if claims patterns continue to evolve positively, we would anticipate increased reserve releases in 2014 and '15.

Meanwhile, we continue to invest in new developments in the UK, and I'll highlight two of them that have very little impact on profit this year but may have some impact or some material impact on profit going forward.

One is Telematics. We've been doing a lot of testing of different brand propositions, distribution methods for telematics products. We've done a small TV advertising test for Admiral Little Box. We're working alongside a panel of other insurers with Confused on their MotorMate smartphone app to understand the economics of that particular technology.

But I would caution you that this is something that will not have a transformational impact on either ourselves or the market in the short term because of a very high level of consumer resistance.

I've always worked on the basis that car insurance is a commoditized product, and particularly for the higher premium segment price is everything. But I have to say telematics has disabused me of that simple view of the world inasmuch as young drivers are willing to pay a significant premium not to have a box, and that's the majority of young drivers, not the minority. And that has a significant impact in terms of the speed of adoption of this technology.

The second area I'll briefly touch on is Household, which we launched in December of last year. We are now on all four of the price comparison sites. The four big ones actually dominate household even more than they dominate car insurance. However, we were only on two at the end of the first half, so two of them have only come on in the last few weeks.

So you can see it's still early days. We've been encouraged by progress to date, as have our reinsurers, Munich Re and Swiss Re, who are sharing -- taking 70% of the premium. And we're working particularly on the pricing in claims side to build a product offering and a competence that means that Household can make a material difference to the profits of the business a few years out.

I'll now pass you over to Kevin to talk about the International business.

Kevin Chidwick {BIO 15100612 <GO>}

Thanks, David; morning, everybody. Okay. I'm going to talk about the US market and about Elephant Auto Insurance, which is the name of our car insurance business over there.

So I'll start with an apology, which is if anybody here is quite familiar with the US market, then much of what I'm going to talk about in terms of the market is going to be quite familiar to you.

The US market is very different to the UK market in a number of important ways. Firstly, and most obviously, it's a lot bigger. It's a market of 200 million vehicles, privately insured vehicles, divided into 51 states. And I say 51 states because it's the 50 states plus Washington DC which has its own car insurance regulations. And it's about $172 billion of premium, or about GBP120 billion.

And each -- the separate states is important because each state regulates separately and each state has its own way of regulating, and in some areas, that can vary quite a lot.

The regulation in the US is considerably more detailed and prescriptive than it is here in the UK. Every pricing law that you adopt has to be approved by your regulator, and every change you make to those rules has to be approved.

Specific forms and processes that you use in your organization have to also be approved, and they're regulated and closely audited for conformance with those rules. And non-conformance against those rules can be quite painful. Restitution can be expensive, and a great deal of effort, therefore, has to go into making sure that you're in compliance and that everything is working the way it should. And when you want to change things it's going to be harder, take longer, and probably be more expensive that it would be here in the UK.

But despite what looks like tough operating conditions, the US market actually is remarkably stable and quite profitable. As you can see from the combined ratio numbers on the bottom-left there, it generally runs the combined ratio in the mid to late 90%s, and that's made up of a mid 60%s loss ratio, which remains remarkably stable, and a mid 30%s expense ratio.

The claims that we see in the US are much shorter in tail, and they're much more predictable, primarily because the market itself is limited liability, which means that the liability that we have on any one particular claim will be limited by what the customer has chosen on his policy as his limit.

So multi-million pound bodily injury claims, as we have here in Europe, just don't exist in the US at all. And two-thirds of the cost of our claims that we pay out in the US will be for repairing cars as opposed to the bodily injury costs, which makes up the other third. And that's inverted compared to the UK where it's the other way around. For example, in Elephant Auto Insurance, our biggest claim we've had so far in our three and a half year history is just GBP200,000.

And of the 200 million cars in the market, roughly a third of customers will re-shop for their car insurance every year in the US, and roughly a third of those people will actually switch providers. So that means that you've got a churn rate of about 10%, and that means there's about 20 million pieces of new business available each year in the US. And we estimate that of that 20 million, roughly 40% of them are currently buying their car insurance direct.

In terms of providers on the bottom-right there, the market is very fragmented once you get past the first five or six players. The first five players in the market make up about 50% of the market, and then there's another 300 providers who make up the other 50%.

And the market is moving direct. Geico and Progressive for instance have moved their market -- their combined market shares in the last five years from about 13% out of that 50% to 18% out of that 50%.

There are a number of reasons why we think the US market has the potential to be a very attractive market for Admiral. The first and perhaps the most obvious one is it's a high expense ratio market. With an average of 34%, I think Admiral's got a good chance of producing a market beating cost structure once we gain appropriate scale.

And claims handling costs are quite a significant part of that. They're 12% of premiums. And that should be an area where a modern, efficient, direct writer should be able to do well.

The second area is in the pricing. I said already the market is heavily regulated and all rates are publicly filed, so you might think this would limit an individual insurer's ability to gain an advantage. But we think the opposite is true. As I've got to understand the system better now, I'm of the view that the system works in favor of a direct player with modern flexible systems, and a different perspective on how rates and rules can be changed, both in terms of the types of changes that you would make and, importantly, the frequency of them.

And the direct access to the data shouldn't be underestimated in terms of the fast feedback that you then get to help make your changes.

The third area I would comment on is the direct to consumer Internet model and the adaption of that, which is becoming increasingly important. Recent data I've seen shows that roughly three-quarters of shoppers in the US are starting their journey, their car insurance shopping journey on the Internet. And how to make that journey work well for the customer, how to make best use of the data you get, is a non-trivial task, and something that Admiral has got a long history in.

And the last thing I'd say about the US market is that the direct brands, the insurance brands themselves, are more important than they are here in the UK. Last year, the market spent $6 billion advertising itself to its prospective customers, which means about 20 million switchers. You're talking about an average of $300 million -- sorry, $300 per switch -- that would be very expensive -- which itself, $300 per switch is a very expensive acquisition economic compared to the UK.

And of course, there's no price comparison yet in the US. So the direct brands themselves, the way that you advertise your brand and the way that you make your marketing as efficient as possible is extremely important. And that's something again which Admiral has got a decent pedigree, a decent history in the past.

It is important to say that, actually, the state mix in the US I think is quite helpful, the break-up of all the states. If you're trying to grow efficient marketing, it does give you the chance to test in different states in relatively local markets, and it does mean that you can invest enough in a specific area to get a decent share of voice and be able to build your brand awareness without having to take on the entire USA in one go.

So it's going to be interesting to see how it plays out and how Admiral really does in the USA over the next few years, and we're going to try very hard to deliver on some of these things I've just talked about. But I do believe, and we do believe that this is a real genuine opportunity for Admiral to do well in the US market given the context of how the market operates.

So how have we been getting on so far? Good question. The answer is that we're making steady progress. Over the 12 months to June 2013, Elephant Auto Insurance grew its in-force book by 57% to 62,000 vehicles. So we can claim to be one of the fastest growing car insurance companies in the USA.

Our turnover, as it would be described in the UK, our gross written premiums plus ancillary incomes and other fees was about GBP19 million, which is up about 44% on the previous half year, obviously driven by that growth in the vehicle numbers, but also offset slightly by an increasing proportion now of our book coming from renewals and a slight shift in the mix.

Our growth rate so far this year is about a third. So I'd say when I'm standing up talking about the full-year results, if that comes around, then I'd say we'd probably be talking about 33% or so growth rate this year.

And as we grow our scale, as you would expect, we're seeing our expense ratio coming down, which is the major driver of that high combined ratio you see on the top right. And over the last 12 months, that number has come down from 196% in the USA to 149%.

As I've already said, the cost of acquisition in the US is much higher than it is the UK, and so you'd expect to see a big improvement in these economics as you build your brand awareness in the States. And I've tried to illustrate that in this graphic on the red line that you see here, which is describing the amortized cost per sale that you see in a state once you've been there for a while.

So -- and this is Virginia. And when we started back in the first half of 2010, running very high acquisition costs; and over time as your brand awareness builds, your economics efficiency gets better, and you see that coming down quite quickly and quite dramatically. So there's a very significant improvement in acquisition costs, and that's the benefit of investing more in a single state.

We're currently selling in four states. Virginia was one at the beginning. We went into Maryland in the beginning of 2011; then into Illinois in the middle of 2011. And we've been in Texas for the last year and a half.

And if you look at the US market, again stepping back to look at the prospects for Elephant, you can see that in the US market overall, the growth is all coming from direct.

The graphic on the top left there shows that for the last four years, we've seen the non-direct players in the USA basically standing still, growing a little bit, whilst the direct operations are growing by nearly a quarter. And within that number you're seeing Geico, Progressive and USAA were the three big direct players really leading that charge. And those three names I've just mentioned are three of the top 10 insurers in the USA.

If you then look at the other seven top 10 insurers in the USA, they're not really going anywhere, but it's interesting to see that three out of the seven have made a direct acquisition in the last couple of years, and that's shown on the bottom left here.

So in 2009, we saw Farmers buying 21st Century, and then in 2011 Allstate bought esurance. And then just last year, American Family picked up Permanent General. And I think that says a lot about the -- how the top players are seeing the direct distribution. You've either got to figure out how to build it yourself, or you're going to have to go out and buy something which gives you an opportunity to get going on it, because that is where the market is heading.

So just going back to our markets, the four markets that we're in, I've said we're in four markets. I'm not in any hurry to expand those four states to more states because the four that we're in give us significant access to distribution already.

34 million vehicles just in those four states, which is about 3.5 million pieces of new business every year. And within that context, Elephant is tiny; 62,000 vehicles. We're about 0.2% market share of the market, plenty of headroom. But if you look at it from the USA overall, then Elephant is just a drop in the ocean.

Last year, in fact, we were -- the rankings came out at the end of 2012, we were ranked 142nd out of these 300 or so car insurance providers. And we've already broken through into the top half of the car insurers in the USA. But if you then look at the data a little bit more carefully, you will realize that our market share rounded to 0.0%.

So even with the current market size that we've got in the US and the amount of churn that's going on there, there's a huge opportunity for Elephant Auto Insurance. But I do believe, we certainly do believe that that market size will grow substantially. So the proportion that's going to be direct over the next few years will continue to grow; so the market itself will become larger and larger.

And you wouldn't be surprised to hear me summarizing by saying that our strategy in the US is to grow cautiously, to seek to expand our business in a scale -- a speed at which means we're trying to build something which is long-term sustainable, profitable.

And for the moment, that means putting on more new business, growing the size of the operation, and getting to a point where we think we can deliver efficient scale on our cost structure, but making sure we don't grow too quickly and that we don't make too many mistakes that become very expensive ones; and we learn as we go about how to make this business as effective as it can be.

So that's the summary then for Elephant Auto Insurance so far. I think in summary I'd say so far so good. But very much a message that whilst the potential is very significant, this is a marathon and not a sprint.

Thank you. I'll hand you over to Cristina.

Cristina Nestares {BIO 18674745 <GO>}

Thank you, Kevin. Good morning, everyone. I'm Cristina Nestares and I'm the European Manager. I joined Admiral eight years ago and I launched the first International operation in Spain. And five years after, I was promoted to European Manager where I manage the businesses in Spain and France.

Today, I'm going to give you a brief introduction of each of the European markets where we operate, and then I will cover the Admiral results there.

So starting with Spain, it is a very profitable market. As you can see in the graph on the bottom, the combined ratio in the market has been very stable and under 100% in the past few years. Actually, the market has experienced 10 years of a combined ratio below 100%.

However, the market sales have been impacted by the economic crisis, and as you can see on the top, premiums shrunk by 6% last year. Part of this is because the sales of new cars has really dropped in the past five years.

So in this context, appetite to grow is still very high, and we have many insurers spending a lot of money on TV to get new customers. Actually, there are three players which are spending more than EUR30 million every year on TV. We have Verti, Direct Line and Mutua Madrilena, which are educating the market to shop and to find a better alternative.

In this context, the Spanish consumer is embracing price comparison channels, and last year, 13% of our new sales were closed using this channel.

We expect this trend to continue growing very fast, because there are two main players in the market, including Rastreator, which is owned by Admiral, which are growing very healthy and is spending very much on TV.

So now we continue our tour to Italy. Italy is a very big market. It's actually the second largest market in Europe. It has more than EUR20 billion in premium and 37 million vehicles. And 2012 was particularly a good year for the market because the combined ratio decreased to 92% coming from 101% the previous year.

There are two main reasons behind this. First of all, strong price increases that have been happening in the market for the past couple of years, but also a decrease in claims frequency of about 10%.

Given that the market is becoming very profitable, there is appetite again by players to gain market share, and we have seen prices decreasing in the market.

Now there has been in the past few years a clear shift in the Italian market towards direct distribution. Last year alone, this channel grew by 10%, and it was partly fuelled by the strong growth of price comparison websites. Last year, the growth of the volume of these websites was about 40%.

Also, the market experienced a change in regulation, and automatic renewal was banned at the beginning of this year. And we expect this to continue promoting more switching in the market.

And lastly, we come to France, another big market, and actually, the only one where premium has continued to increase despite the economic crisis. The combined ratio in the market decreased 1 point last year to 102% due to modest price increases, and again, a fall in frequency.

This market is also experiencing, as Italy and Spain, rapid growth of price comparison. And as Henry will mention in just a few minutes, there is a lot of media spend in the market, and the growth in the market has been quite strong. Since 2008, every year, it has grown by more than 35%.

Last year, we saw a lot of these players on TV, mostly Laforet[ph] and LeLynx, but also new players coming in. And a few weeks ago, Google[ph] started trading in the French market.

And finally, there are good news for the French consumer. There is a new Law in the market which is called Law Hamon which is being discussed at the Congress, but it has a very high probability of passing, which will make cancellation much easier in the market and will make it actually free, and every time after the first year of inception of the policy.

And now I'm going to try to look at why is Admiral going to be successful in this market. Kevin has already covered this for the American market and we believe similar reasons apply to Europe. I will now focus on the three most important ones.

First, we believe that being superior at pricing is particularly important in a market that is dominated by price comparison. We are replicating the UK model, and therefore we ask more questions than more of our competitors, and we also have an extensive use of external databases. To give you a flavor, in some cases, we ask more than double the number of questions than our competitors do. And additionally, we have a larger footprint than the average, because we believe there is a price for every risk.

Secondly, as I have mentioned, for all the market there is a clear change in distribution. There is fast growth of price comparison websites. And to give you an idea, three years ago, there was almost no TV, no TV from these price comparison websites in each of these markets. And today, there are at least two players in this market investing heavily and they already represent between 20% and 40% of the share of voice.

This is very important for us, because we use these channels as our main channel of distribution, so all the growth in price comparison benefits our own growth.

And finally our culture. There are many elements in the Admiral culture that we believe have been very successful, or have been very important for the success of the Admiral in the UK, and we are replicating this model to each of our European markets. We are very -- we have a testing[ph] mentality. We are not afraid of changing. We're very data driven in our changes and we're very fast to adapt.

So now moving on to our results. We have a split here the growth in vehicles by each country. So you can see the results or the number of vehicles in Spain, Italy and France, and this is to give you a sense of the relative sizes. As you can see in the graph, all the countries have experienced good growth last year.

So we'll start with Spain. Admiral Seguros grew by 21% to a size of almost 120,000 vehicles in the last 12 months, and this is despite economic conditions in the market. Part of this growth has been done through the launch of Qualitas Auto, which is our second brand, and we did it with a strong TV campaign starting in March this year.

ConTe, as you can see, is our largest international operation. It reaches highs of 280,000 vehicles in the first half of this year. And since its launch in 2008, ConTe has benefited from this shift in direct distribution that I was mentioning.

And finally, our youngest operation, L'Olivier, which launched in 2010 and more than doubled its size in the past year achieving 22,000 vehicles.

Now when we look at the results in a consolidated basis, we start by the total premium written and other income which grew by 15% to GBP76 million last year. And not only our operations became bigger, but they also became more -- or they all seemed to improve[ph] their results. And the combined ratio improved from 133% to 116%. Most of this improvement is down to an improved experience in claims.

Finally, our results also improved by 10% and we lost less than GBP4 million in the first six months of this year.

Now we're very encouraged by the results so far, but we're going to continue investing in all these operations to make them growing, profitable and sustainable business.

And I would like to end by saying something that you have probably heard before which is that if people enjoy what they do, they will do a better job. And we're very proud to say that our staff have voted us in Spain and Italy among the top 10 best places to work for. And this is a clear indication that we have been successful at exporting the Admiral culture, what we believe is a key indicator of our future success.

And now on to Henry to talk to us about price comparisons.

Henry Engelhardt {BIO 3022947 <GO>}

Thank you, Cristina. Price Comparison. Our whole international strategy is based upon a very simple premise -- the Internet is an irresistible force. The 23-year-olds in Austin, Texas, in Rome and Montpellier and wherever, they're using the Internet for virtually everything they're doing, and at some point in the not too distant future, they're going to use it to buy their car insurance. That's what our international strategy is based on; this shift in distribution to the Internet that we believe is inevitable.

We're seeing proof of that. It's not immediate. It's not automatic. But you can see the movement towards a new channel, which is price comparison. Big growth in France, big growth in Spain. We don't have an operation in Italy, but Italy went from some 2% to 12% on the same figures in the same period of time.

Even in the UK, where price comparison is quite common and is the norm, there's still a lot of growth, and there's still growth happening in that sector.

The one that's on there at zero is quiet interesting. We have launched a price comparison business in the US called comparenow.com. comparenow.com is trading -- I put it in quotes. In some states you can put in your details and get maybe one -- no, I think it's one; I don't think we're up to two yet; two prices back.

But in the meantime, we are frantically busy what we call on-boarding, which is basically hooking up the insurers from their platform to our platform to be able to generate quotes. And we're very excited about the next 12 months of comparenow.com as we bring more and more insurers in and offer the consumers something of real value; the ability to go in and in 15 minutes get a whole slew of quotes rather than just one.

So we think this business has great potential in the US where, interestingly enough, price comparison for car insurance European style just doesn't exist.

So how have our businesses done, in particular LeLynx and Rastreator? And we're very proud of the achievements of those businesses in a relatively short period of time. You can see the growth. You can see the increase in turnover. Most importantly, they've turned a GBP200,000 loss into an GBP800,000 gain across the year, and that's very positive.

And also, in the environments they're trading in, as Cristina was saying, both of these markets are seeing a lot of competition in price comparison.

In France, we've been joined by one of our UK competitors, Budget Group, Compare the Market, has launched an operation with a big TV campaign. In Spain, there are two other competitors that have been on TV across the first six months. And in a sense, this is all quite positive, both for price comparison because it is helping to educate consumers. And when you're only at 10%/12% of the shared new business, educating consumers is important. And every time our competitors go on TV, we get a surge in our volumes as well.

Saying that, you wouldn't mind being the only price comparison site in those markets, competition is competition. But at this stage of the game, it's reasonably positive. And it's certainly positive for our insurance operations, which as Cristina spoke to, operate very much through price comparison distribution channel. The growth of price comparison in any way, shape or form, is the friend of our insurance businesses.

So we're very pleased with the progress being made by LeLynx and Rastreator and believe that they have a very big and profitable future within the Group.

It was a good half year for Confused.com. It wasn't stunning, but it was in the right direction; an increase of profit. All the big four price comparison businesses in the UK are pretty profitable, but that doesn't mean it's not competitive out there. It is pretty ferocious, as you could see if you just watched 15 minutes of TV.

Confused, a big development; Brian the Robot, new campaign. We're getting a good take-up on this, social networks, all that type of thing, and we'll continue to roll that out as the year progresses.

MotorMate, which is an app, which is a telematics app that you can get through Confused, it's on your mobile phone; you keep that in your car. It tells you how you're driving. Some insurers will offer some incentives if you use it. It's an interesting development in the telematics area.

And QuickQuote, if you have had a quote in the past from Confused, all you have to do is put in your reg number and your email address, and bam, you get the latest quote. So especially if you're shopping for a car and you're going through the dealership, you just put in the reg number, I'd like that one; what would the insurance be on that? Oh right. How about that one? Oh, okay.

So it's really handy for getting a quote in seconds. We're not even in -- forget the 15 minutes, forget the 3 minutes. We're talking about half a minute or a minute, something like that.

Well, let's look at everything in total. We want to be very clear. UK insurance very competitive; not the time for us to grow. We're very pleased that we didn't grow because to grow in this market would have meant really cutting into the margins. But we have had positive developments in our claims experience which has allowed us to increase our reserves. And to be very clear, yes, we've increased reserves, but the margin over best estimate has increased.

International; we are committed to an ongoing investment. A good progress made in the last six months in International, but it's not add water and stir. These are very challenging markets, but we continue to invest and we're showing good progress in each market.

And Price Comparison, again, good performance in competitive markets and good potential for growth.

This is the same slide that you saw at the beginning with two added bullet points at the bottom. As Geraint explained, we will give staff the full award, GBP1,500 worth of shares. And we're very pleased to give the staff who created these good results this full award.

And lastly, a reflection the other way. Great places to work. We were the second best large workplace in all of the UK, and the second best multinational workplace in all of Europe. And we're very proud of those awards.

Thank you, very much for your attention here this morning, and I now open it up for your questions, comments, indignant remarks.

Questions And Answers

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. I seem to ask the same question every time about UK top line and direction and where it's going. So let's start with that one.

So on slide number 21, we've got the movements in the UK business -- the average new business premiums down 10% and renewal premiums down 3%. So I guess the average renewal premium down 3% doesn't reflect the aging of the portfolio. That's actual rates. And that explains why the average -- the overall turnover is down 10% even though the renewal premium is down 3%.

And the second point is I guess on the average new business premium what you're saying is that it was down 10% H1 versus H1 last year, but of course, most of the reductions happen in Q2. So maybe you could give us a Q2-on-Q2 figure, or maybe even indicate where we are in Q3. Because obviously, esure indicated that price reductions continued into Q3. So I'm just trying to get a feel as to where the top line number is going to be at the end of the year given the lack of growth in vehicle currently in the UK. Thank you.

A - Henry Engelhardt {BIO 3022947 <GO>}

David, that one's straight up your alley.

A - David Stevens {BIO 6807391 <GO>}

Well, I think -- there's a lot of elements to what you said there. One thing I'd just comment on is the average new business premium down 10% and the renewal premium down 3%, there's a mix impact in terms of share of new business and renewals so that the overall average premium is not down by the average of the two of those, it's down by around 10% overall.

In terms of further detail on movements, I don't think we're going to give further detail at this point. I think in saying that, we anticipate a relatively short sharp[ph] cycle, and in saying that, we feel that a number of our competitors are overly influenced by historic profits and overly optimistic about potential claims benefits from new regulation.

And we are, I think, suggesting that this continues to be a competitive market, and until players that are seeking to grow pull back from that, then price decreases will probably continue.

Q - Andy Hughes {BIO 15036395 <GO>}

I just want to circle[ph] on that point about the turnover being down 10% and the average renewal down 3% and new business down 10%. Are you basically saying that the mix effect is that you're losing the younger drivers from the portfolio on renewal and that's why the average renewal premium is only down 3% and the turnover is down 10%? Because you're keeping the older drivers with lower average premiums and you're losing the younger drivers on the renewal side, and that's why you've got a bigger decline in turnover than you would have expected from these numbers you see on the slide.

Because clearly, if no one renewed, you'd just get the new business premium which is down 10%, but if some people renewed you'd only have down 3%. So it should be somewhere between 3% and 10%.

A - David Stevens {BIO 6807391 <GO>}

The renewal book is less susceptible to portfolio shifts than the new business book. It hasn't seen a very material shift in its makeup. Were there a big move of younger drivers out of our renewal book, you would anticipate the renewal book average premium would drop faster than the average.

So the new business book has fallen more than the renewal book, and that is a reflection of the fact that it's more susceptible to portfolio shift changes, and so there was less young driver in the new business book than would have been the case a year ago. I'm happy to pick it up further afterwards.

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot, Berenberg. Perhaps I could just stay on that same slide, first of all. I appreciate you're not looking to grow at the moment and you won't give[ph] guidance on top line, but just in terms of your UK vehicle count which has stayed flat for the last 12 months, given that you're now -- I know there are a number of factors here -- but given that you're now top 76% consigned[ph] versus -- compared with what you were before, can you give any sort of comment about the impact that that might have on your UK vehicle count going forwards?

I then had a separate question actually, perhaps for Henry, on the Price Comparison site strategy. You've outlined very clearly the potential for those businesses. I'm just wondering if you could remind us, first of all, whether there are any other countries that you're looking at the moment; and also perhaps remind us in terms of why Italy turned out to be a country not worth pursuing.

A - David Stevens {BIO 6807391 <GO>}

Our view is in the second half the likely value maximizing choice for us would be for our volumes to stay roughly flat.

Q - Peter Eliot {BIO 7556214 <GO>}

For vehicle count[ph]?

A - David Stevens {BIO 6807391 <GO>}

Yes, in the UK.

A - Henry Engelhardt {BIO 3022947 <GO>}

On the Price Comparison, yes, we are looking at other countries. We're doing a broad brush which ones might be interesting. In particular, and I'm not going to go into the details of which ones we're looking at because we're not that close to moving forward anywhere, but we would be looking at places that might be interesting eventually for the Insurance business. Because doing price comparisons first gives you a very good feel for the market. Their businesses are quicker to set up. They're less expensive to run. They get the profits earlier and give you a very good indication of what the market might be like as an insurer as well.

So we're looking at a whole slew of possible options, but nothing -- certainly nothing this year, probably nothing next year, although who knows.

Italy was very different because in Italy in particular, you only have a very small number of firms that actually transact on the Internet. So whereas in other countries if you go into Confused, you'll get 40 or 50 quotes back for a car insurance, in Italy, you can't get more than eight. There are only eight insurers that operate. And one of them said they won't be on any price comparison site, and they're a big one. And so that's seven.

And then the influence of having ConTe, some of the others said if ConTe is the owner, if Admiral is the owner of the Price Comparison, we'll stay off that price comparison site. So we had a really sub-optimum panel, and therefore it was best for all concerned to put it -- to give it and then put it in the hands of someone who could build a more optimal panel and then grow a better business.

That's better for ConTe as well, because if they can do a big business in price comparison, that benefits all the panel members. So it just didn't quite work for us in Italy and we've sold it and somebody else is now running it.

Q - Tom Dorner {BIO 15847486 <GO>}

Tom Dorner, Citi. I've got two questions, please. The first is on the margin over actuarial best estimate. You said it increased a bit in the first half. Be interesting to know what -- how do you think that's going to evolve over time, because you said that you expect reserve releases to increase. So do you think that you'll be effectively drawing down on that in the next few years, or would you hope to keep it stable, or maybe even increase it?

And then the second question is on Telematics. David, you mentioned that young drivers in particular are quite resistant to the proposition. I just wondered, are the reasons for resistance just that they don't like it in principle, which might be an obstacle to Telematics ever really taking off? Or is it more they don't like the idea of having a black box put in their car and it would be easier on smartphones? So are the reasons for resistance a real issue for Telematics, or can they be overcome through technological innovation?

Thanks.

A - David Stevens {BIO 6807391 <GO>}

We did do telematics, so it's a very good question, and there are a number of different reasons. Some are visceral around privacy and being monitored. Some are urban myths around telematics; will I get shopped to the police if I speed; will I --? I'm not allowed to drive at night. There are a number of those sorts of myths around. And some are reflections of young drivers' lack of confidence about their own driving. Yes, I'm a great driver. Would you like a box? Well, I'm not sure it would recognize how great a driver I am .

And I think some of those can be addressed and some of them can't be addressed relatively easily. So I think it's watch this space as to whether in a sense the insurance industry can reassure and educate sufficient to overcome some of those barriers.

I think -- shall I do the margin over best estimate as well? On the margin over best estimate, the rational thing for us to do in establishing a margin over best estimate is to do that in the context of recent volatility, because, in a sense, your margin is protecting you against surprises.

So when we say if there would be scope for increased reserve releases if claims patterns are benign going forward, one of the elements of that would be if the ultimate loss ratios settle down in terms of movement. And then you would have more confidence over what the appropriate margin was.

And so in that context, you might expect to see the margin diminish and that would feed into releases. But conversely, if you get a high level of volatility on the ultimates, then that isn't going to be the case.

Q - Marcus Barnard {BIO 2103471 <GO>}

Marcus Barnard, Oriel Securities. A few questions, please. Firstly, your profit commission was down. Can you explain what's going on there? You came up with quite a high figure for 2012. I'm just wondering, is there a first half/second half effect there, and what would we expect in half 2?

Secondly, on margin over best estimate, can you confirm that that is for every underwriting year or whether that just applies to the portfolio in aggregate?

And if you have improved your margin, I suppose this links on from Tom's questions now, can we expect to see more reserve releases in future years?

And finally, what's driven the improvement in the margin over best estimate? If you can put some color on that, please.

A - Henry Engelhardt {BIO 3022947 <GO>}

The first one was --?

Q - Marcus Barnard {BIO 2103471 <GO>}

About profit commission.

A - Henry Engelhardt {BIO 3022947 <GO>}

Profit commission. Geraint, why don't you take that one?

A - Geraint Jones {BIO 4335136 <GO>}

One of the main things which is going on, Marcus, with profit commission in this half year is that there's a quite chunky number which appears in reserve releases which relates to contracts that we've commuted. If we hadn't commuted those as reinsurance contracts, then that revenue would have flowed into the profit commission line. And I think in the interim release, we show what that number is and we add it back into profit commission, and that gives you a more comparable movement H1 '13 versus H1 '12. And you see a reasonably material increase in line with the development in the underwriting profit.

There's a bit of seasonality in profit commission in H1 versus H2. What happens in H2 will obviously depend on where we book the loss ratios at the end of the year. We'll tell you that at the end of the year. Sorry.

The second one was the margin above best estimates and whether it's on one year or all years. It's across all years. We think about the margin across all underwriting years and don't really think of individual underwriting years in isolation. So we talk about the whole account there.

A - Henry Engelhardt {BIO 3022947 <GO>}

The future of reserve releases, David, and what will the margin over best estimate be?

A - David Stevens {BIO 6807391 <GO>}

Well, I think I'd just refer back to the previous question, which is it's assumption of volatility. And one of the rationales for the increase in cushion at the half year, on page 58 in the appendices, you can see the movements in ultimates. And in the first half of 2013 for Admiral, there were quite material moves down in ultimates for '09, '10 and '11. And volatility is fine neutral; minus and plus are both volatilities.

So we are still seeing -- encouraging obviously in the context of reductions. We're happy to see reductions, but that there is an element of that substantial movement in six months that encourages us rationally to hold a bigger cushion.

Q - Chris Esson {BIO 6194371 <GO>}

Chris Esson, Credit Suisse. Just a couple of questions, firstly, just going back to that commuted reinsurance. Was there any timing benefit or difference associated with that? So in cancelling it, were you supposed to get the profit commissions coming through over a 12-month period and you've just booked it all in the first half? So I just wanted to get a sense of whether that was truly neutral.

And secondly, I guess more big picture. And you talk about the Internet as an irresistible force. And when you speak to European insurance executives, most of them say we don't want to look like the UK at any cost. And so I just wanted to get a sense of how much support are you seeing from the major incumbents with the strong brands in terms of their willingness to participate in price comparison. And is this a potential threat to the overall development of the model?

A - Henry Engelhardt {BIO 3022947 <GO>}

Geraint, the first one; and, Cristina, the second one.

A - Geraint Jones {BIO 4335136 <GO>}

On commutations, there's no profit impact or no timing impact of commutation. So the only impact of the commutation is which line in the accounts the revenue appears. And so, no.

A - Cristina Nestares {BIO 18674745 <GO>}

If I understood correctly, your question was about whether the big players in this market are not embracing price comparison model more or less. I think it varies very much by country. The case that Henry was explaining was only for Italy. If you look, for example, at Spain, all the direct players and very big traditional brands are present in navigators. You have more than 30 players actually in comparing prices and navigation.

In the case of France, it's very different. All direct players are embracing price comparison; traditional mutuals some of them, but large players have not, so it's a mix model. And I think the most difficult one is the Italian case, where not only direct players are present.

But I don't see that as a threat. As I have mentioned, the growth in price comparison in all these markets in the past few years has been from 40% to sometimes 80%. So consumers are really embracing the model and I think it will be a bit of the egg and the chicken. Once you have more people coming in and using, there will be more attraction for some players here.

Q - Chris Esson {BIO 6194371 <GO>}

(inaudible)

A - Henry Engelhardt {BIO 3022947 <GO>}

Very good appetite in the US. It's an interesting market in the US because you have these big four players. When Kevin talked about -- I should have answered it, but Kevin answered it. He talked about $6 billion in advertising. It's $6.5 billion from the big four and negative $500 million or something from the rest.

Most of it comes from the big four. So the others are -- what do they do? How do you fight $6 billion in advertising? And so price comparison for them is fantastic, so we're getting a very good reaction from numbers five through 400.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. I had three questions. Firstly, what sort of hunger march[ph] should we expect on the Household business? Perhaps you could give that in comparison with the International businesses?

Secondly, David, could you go into a bit more detail on Telematics? Because I think what you're broadly speaking saying is that it's a market which is largely limited to the 17 to 21-year-olds, and a large chunk of it are non-adopters of it. Do you actually think that Telematics is a red herring, as it were?

And then thirdly, and this is a slightly more qualitative question, you've given us a sense of when -- how you think the cycle will play out, thankfully, not without frogs[ph]. But could you give us a sense as to how long you can sustain profitability? Because cycles tend to go on; they tend only to turn when there's a shock change in the claims side, which is very difficult to predict. And if this extends on a long time, there's got to a point to which these players are going to run out of reserve release.

A - Henry Engelhardt {BIO 3022947 <GO>}

They're all on your sweet spot, David.

A - David Stevens {BIO 6807391 <GO>}

Household is a very different beast from International because it piggybacks on so much overhead and brand equity carried across from the car insurance entity. So if your hunger march reference is how much pain before the gain, then the pain of Household should be very much less material than the pain of, for example, establishing a business in a brand new country.

The only caveat on that is, of course, Household is subject to catastrophe risk, and you've always got to be aware of -- if someone said, look, you promised that Household would never lose money, which is not what I'm saying at all, of course , it has to be caveated with that catastrophe comment.

Telematics; I think maybe your extrapolation from what I said is slightly too pessimistic. I don't think it's necessarily limited to the 17 to 21-year-olds. It can go higher. There are people who actually embrace being tracked and being able to look on the website and see their -- get their scores, and that takes you up into some older groups.

But I just think there are some people -- the reason I said what I said is that there are some people who look at the technology and look at the data and perceive that because this is, which it is by the way, genuinely interesting in risk selection, it has to be the way forward. But essentially, if people are willing to pay 10% or 15% more not to have it, then it doesn't matter how good the technology is. It's going to be a minority interest.

So it boils down to my answer to the previous question about resistance. Can people be educated? Will people change their view? I think if the answer is, no, then it's going to be small beer, and if the answer is, yes, then it's got lots of potential.

A - Henry Engelhardt {BIO 3022947 <GO>}

And lastly, cycle -- profitability through the long protracted cycle.

A - David Stevens {BIO 6807391 <GO>}

I think it's impossible to underestimate the ability of the UK car insurance market to commit hari-kari. And so I think you can't guarantee that whatever happens we will be able to deliver a result that's feels immune to the cycle. I think we've positioned ourselves very appropriately in the run-up to the cycle, and if the collective behavior is rational, then we're in good stead. But I can't guarantee the collective behavior will be rational or that there won't be some major claim shock.

Q - Ravi Tanna {BIO 16926941 <GO>}

Ravi, Goldman's. Just one; or two questions, please, actually. The first one is on large bodily injury claims, and I was just hoping that you could give us some color on the progress there and the number of PPOs, etc. And I assume that the favorable development in the ultimate cost ratios for 2009 to '11 suggest that that's all going quite favorably and you've seen a plateauing in that respect. But I was just hoping for some detail on that.

And secondly, in terms of your commuted contracts, I know they tend to come two or three years after the inception in terms of the reinsured contracts. But I was just wondering to the extent of the capital requirements that you -- the extent to which you need to take on higher capital requirements once those contracts are commuted and the risk is back with you.

A - Henry Engelhardt {BIO 3022947 <GO>}

David, you can have the first one. But before you do, just to note that our Operations Manager, a gentleman who was our Claims Manager but now has added all the rest of the operations to his portfolio, Stuart Morgan, is here. And if you do have questions on operations or particularly claims, he will be here afterwards, unless he scoots out really quick somehow. So he's a good one to talk to, but for question about bodily injury claims, I'll pass it to David. And then, Geraint, if you want to talk about commuters.

A - David Stevens {BIO 6807391 <GO>}

Yes. I think it's -- the extrapolation that you meant[ph] to say that the fact that the ultimate loss ratios have come down in 2009 to 2011 must mean that the evolution of the big claims has been more positive than the projections assumed is correct. Things have been more positive than was assumed by those projections, and mainly around the bigger bodily injury.

And part of that is that PPOs are running at a rate which is consistent with the recent past and consistent with the 30% to 40% of claims over GBP1 million that people have been tending to use in their reserving over the last couple of years.

A - Geraint Jones {BIO 4335136 <GO>}

On commutations, there is no real capital impact after a commutation. And there are two reasons for that. One of them is the basis of the insolvency calculation tends to be based on the percentage of net premiums. And obviously, commutations don't impact on that Solvency 1 number plus the margin.

And the second part is when you think about it, after 24 months or 36 months when we typically commute a contract, there's a sufficient amount of certainty in the outcome of that underwriting year actually, it makes no real difference if the reinsurance is still live and we get less or more profit commission, or if we've taken the claims on to our own books and we get more or less underwriting profit.

So it only becomes a real capital issue if you're expecting -- your realistic expectation that the underwriting year is going to be a loss-making underwriting year. That thankfully tends not to be the case.

Q - Ravi Tanna {BIO 16926941 <GO>}

And uncertainties there in the case of the larger claims, the ones which -- have they all tended to be resolved post-year[ph], or is that not the case?

A - Geraint Jones {BIO 4335136 <GO>}

Well, they don't tend to be resolved after 24 months, but there's sufficient headroom between where the current expectation is and the point at which we start to take a loss or we need to use the reinsurance. But we're confident enough on that outcome.

A - Henry Engelhardt {BIO 3022947 <GO>}

I think it's worth pointing out that the option to commute is totally ours. It's not that they can choose. We can use it. We choose if and when to commute.

Q - Fahad Changazi {BIO 15216120 <GO>}

Fahad Changazi, Nomura. Thanks for your view on cycles and for your comments on competitors; very illuminating, as always. So I was just wondering, in the context of slide 16, could you comment upon which guys will be conducive perhaps to cycle turn[ph] at the back end of 2014 and perhaps where do you see some troublemakers[ph]?

A - David Stevens {BIO 6807391 <GO>}

Not really, in the sense that we haven't got an insight into their individual results. I think the important point is that just the market will be clearer. There are more people looking to grow than willing to shrink and it's just highlighting perhaps the players you might -- we would look at particularly to see if they're signally a turn by a change in their behavior.

A - Henry Engelhardt {BIO 3022947 <GO>}

We have one from the phone.

Operator

Greig Paterson, KBW.

Q - Greig Paterson

Just in terms of the base rate, I wonder if you could tell me how that's tracking year to date.

And the second point is just in terms of the UK vehicles, what percentage was Telematics currently? I was just trying to understand how that had an influence, or if it had an influence on the loss ratio over the last 12 months. That's the Telematics thing.

A - Henry Engelhardt {BIO 3022947 <GO>}

David, I think those are for you.

A - David Stevens {BIO 6807391 <GO>}

We haven't disclosed what percentage is Telematics, and it wouldn't -- it's not sufficiently material to have an impact on the loss ratio or expense ratio because, of course, there is a fact on Telematics that it comes with a higher cost. And for Telematics to work, the benefit on the loss ratio side has to be sufficient to cover the expense side. But in the context of 2013 results, it's immaterial really.

In terms of base rate cuts, I mentioned that new business was down 7%. That's a mixture of the second half of the year, a mixture of the second half of last year and the first half of this; probably slightly biased towards the first half of this as we've seen the claims evolution being very positive on the back years. And our constant modeling of what the actual outcome would be for us, it's told us more solidly[ph] that we -- while we should grow, we shouldn't really shrink at this point either.

Q - Greig Paterson

I was just asking what is the base -- what was your base rate change year to date.

A - David Stevens {BIO 6807391 <GO>}

What we said is new -- well, what we disclosed is it's 7% year on year for new business. That's what we disclosed. And I've just said that there's a slight bias towards the first half of this year versus the second half of last.

Q - Greig Paterson

All right. So sort of flat and then down, yes?

A - David Stevens {BIO 6807391 <GO>}

That's what I said.

Q - Greig Paterson

Thank you.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. I just want to follow up on the capital question. I completely agree with Geraint's comments that after two or three years, really, the reinsurance protection is very limited from adverse movements in large claims. And what I don't really understand is when I look at for example Direct Line Group, who have a similar sized back book to you now as you roll forward and have more of the large claims on the back book portfolio, they have materially more capital on their balance sheet to guard against adverse movement in large claims.

So what I don't understand when I look at Admiral is, especially when I see such a large commutation, how you think about capital. Do you think about capital as a combination of the actual equity plus the reserve buffer? In which case, as we get to a period of competition, with prices coming down, the reserve buffer versus best estimate may decline on the new underwriting. But actually, that means you have to hold more equity because your reserve buffer in totality is actually covering the back book adverse deviation.

So I guess my point is as the back book grows, do you need more reserve buffer in terms of actual best estimate versus reported to actually cover the true capital position and risk in the Group?

Thank you.

A - Geraint Jones {BIO 4335136 <GO>}

Lots of parts to that question. I think the main part is that we do think about capital in terms of the actual equity plus the margin. And I think if you look at our back book and the projected ultimate outcomes of our back book, there's a reasonable amount of headroom between the projected ultimate and the point at which we start to take a loss. And maybe that's different to Direct Line. You'd have to look at their back book to compare.

In terms of where that might go in the future, then I think it's always going to be the case that we're going to reserve conservatively and so we'll always hold a material margin in our booked claims reserves above the best estimate. As David said earlier, that might increase or decrease, depending on the volatility we see in projected loss ratios and how they develop over time.

Q - Andy Hughes {BIO 15036395 <GO>}

But doesn't that mean -- so part of my question was saying doesn't that mean the reserve buffer should grow as the back book grows to get the same level of capital comfort? Because if you've got a small back book, you've got a small risk. Therefore, the reserve margin in totality across the book can be enough to cover that risk. But if the back book is 5 times the size, the same capital inherent in the margins has to be a lot bigger.

A - Geraint Jones {BIO 4335136 <GO>}

I think that's right. If our back book reserves increase over time, then you could expect our margin above them to increase over time as well. So in relative size that would be the case.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Two questions. Do you ever think about changing the investment portfolio and going for more risk? What's your view on that?

And secondly, can you give us thoughts about further regulatory reform or legal reform which you see coming down the track, perhaps around whiplash? What's your best estimate and what will happen, and how benign or beneficial would that be?

A - Henry Engelhardt {BIO 3022947 <GO>}

Kevin?

A - Kevin Chidwick {BIO 15100612 <GO>}

We are looking at it pretty regularly, and the same answer as always, really. But, no, there's no plans to change anything.

A - David Stevens {BIO 6807391 <GO>}

In terms of regulatory change, there isn't anything particularly dramatic on the horizon that hasn't already been talked about. But just to recap briefly, the Competition Commission looks increasingly like it's going to maintain the OFT's focus on non-fault claim handling, and that might call into question all or some of the credit hire referral fees.

Although I think the Competition Commission will -- is finding it reasonably straightforward to agree with the OFT on the problem, I think everyone's struggling on the resolution of that problem. So the actual regulatory changes may take a bit longer to come into force as they tackle the very knotty issue of how to improve non-fault claim handling.

On whiplash, you've got two major ones out there. One is the consultation on increasing the small claims limit, and the other is the potential to change the medical process to involve more independents from the medical experts in assessing whether a whiplash has taken place so that they aren't commissioned by claimant lawyers.

And I think both of those could have a material impact. I think on small bodily injury, and it could be a positive, but again, it is a low double-digits proportion of the whole book, and so people might be getting slightly over-excited.

There is some evidence of a backlash that the Health Commerce[ph] Transport Committee is probably the first public entity to come down with a view that's more towards the claim management view of the world than the insurer view of the world. And of course, insurance premiums have been falling. That takes some of the political heat off.

I think there are some useful further reforms to come, but not necessarily quite as much as one might have optimally hoped for.

Q - Simon Denison-Smith

Simon Denison-Smith, Metropolis Capital. I wondered whether you could give us any feel for how much larger the US business has to be before you get to a combined ratio of below 100%[ph].

A - Kevin Chidwick {BIO 15100612 <GO>}

Well, I don't really want to be putting a figure out there because it would probably be proportionate[ph], but I would say that the expense ratio is the main determinant of the combined ratio. It's a lot (inaudible) reasonably more predictable than the (technical difficulty) in the UK context.

So I think we'll carry on growing the book and I would expect it to be moving towards that number in the next two years. But it really depends on how quickly we get those benefits of the expense scale. So it's -- yes, it's a bit of a vague answer. Sorry.

A - Henry Engelhardt {BIO 3022947 <GO>}

But it's also, acquisition is relatively expensive, even though it's cheaper than it was today. And so if things go well, you'd expect us to put more money into acquisition so it pushes that better expense ratio further out but you have a bigger book when you get there. So it's tough to read into it because if we grow rapidly, it's largely due to success, but that does push the profit base further back.

Q - Simon Denison-Smith

Which of your international markets are closest?

A - Henry Engelhardt {BIO 3022947 <GO>}

It's a good race between Spain and Italy.

Q - Simon Denison-Smith

Thank you.

A - Henry Engelhardt {BIO 3022947 <GO>}

Any other questions, comments, remarks? Anything from the phones? Greg, are you okay?

Thank you, very much for attending today, and we look forward to seeing you in early March.

Thank you.

Operator

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