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Q4 2018 Earnings Call

Company Participants

- Alberto Schiavon, Chief Executive Officer, Elephant.com
- Cristina Nestares, Chief Executive Officer-UK Insurance
- David Graham Stevens, Chief Executive Officer & Director
- Milena Mondini, Chief Executive Officer-Europe Insurance

Other Participants

- Andreas van Embden, Analyst
- Andrew J. Crean, Analyst
- Dominic O'Mahony, Analyst
- Edward Morris, Analyst
- Greig Paterson, Analyst
- James A. Shuck, Analyst
- Nick Johnson, Analyst
- Sami Taipalus, Analyst

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

...that change on some of the key numbers. Slide 47 in the back of the pack gives a bit more detail as well.

We've changed the discount rates, as I mentioned, in the best estimates from minus 0.75% to 0%. And that 0%, of course, at this point, is an estimate. Possibly slightly cautious of what the actual rate will be when it's announced later in the year. And the ultimate pre-tax benefit to move into 0% would be somewhere between £120 million and £140 million. And you can see that 2018's result is £66 million higher as a result of the change. And most of the balance, plus or minus any differential to 0%, if the actual rate is different, will flow into the next couple of years. I'll explain what we're doing in terms of the dividend shortly.

Moving on to look at turnover and customer numbers. Once again, we've delivered good growth across the group particularly from beyond the core UK Motor business. Naturally, in some of the areas, those percentages are a touch lower than recent periods. In UK Motor, the year-on-year position was positive, turnover up 8%, customer numbers up 9%. Growth though, as David said, was more modest in the second half as we moved our rates up in the Car Insurance business ahead of the market, as Cristina will talk about.

In Household, we saw more strong growth. Turnover up to nearly £150 million and a near one-third increase in the number of customers in that business to 870,000. Outside the UK, we saw continued strong progress, moving up to £539 million of turnover, plus 20%, and over 1.2 million customers now, plus 18%. And those are especially pleasing moves given the improvement in the results that we'll see shortly. In Price Comparison, revenue was up 5% to £151 million and our Loans business continued to grow strongly with a stock of loans balances reaching £300 million at the end of the year.

Moving from the top line to the bottom line, what's driving the increased profits. I've touched on the Ogden impact already, so I'll focus here on what's driving the underlying changes. At the top, you can see UK Insurance. Profit was up £20 million to £485 million, and that's made up, firstly, of a £30 million increase in the UK Motor profit where the benefit of a bigger book and very positive prior year development have offset a higher current year figure and expense base. And secondly, a £7 million fall in the Household result from a profit of £4 million to a loss of £3 million. 2018, as you'll know, is a very weather-impacted year for Household.

Moving down to International. You can see a very nice improvement in the result there, £30 million (00:02:37) reduction in the loss to close to a breakeven result. And all businesses improving their results, and as we saw previously, continuing to grow very nicely.

Three years ago in International, we made a loss of £22 million and ended the year with 670,000 customers. In the three years since that loss has largely disappeared and the customer base has grown by 80%.

Price Comparison produced a profit of £9 million, a couple of million up on the previous year with Confused.com standing out; profits up over 40%; turnover, higher; and an improved margin. Admiral Loans grew strongly. Its loss was in line with expectation at £12 million. Don't forget, of course, the frontloading of costs in that business and the spreading of revenue. And finally, at the bottom, the Other line which was notably up on the previous year. The full detail is in the back of our pack, but share scheme charges and some one-off central overhead costs were among the main reasons for the change.

Moving from profits to capital, and also to give an update on our internal model, we continue to have a very strong capital position despite a very slight fall in the ratio from the half year to 194% at year-end. Both the level of capital and the capital requirements moved up in the six-month period and there was a net benefit from Ogden despite the higher dividend that we'll talk about shortly. For the time being, we remain on the standard formula with the capital add on, and that's consistent with recent periods.

To give an update on the internal model, we're making more good progress on developing the model, the validation, the documentation, and so on. But we need to do more to bring those aspects to the standard where we and the PRA, of course, are ready for us to formally apply. Growth in the additional complexity of the group is also leading us to consider whether the scope of the model, purely UK Motor currently, remains appropriate. Those points inevitably mean a delay to the process, and we now don't

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expect to make the formal application in 2019 and possibly not next year either. We'll update, of course, at the next results.

Given strong profitability and a strong capital position, we proposed a higher final dividend of £0.66 per share. The approach we've taken to this year-end is to think of the dividend in two parts. The first is the dividend that we would have paid on the minus 0.75% Ogden basis. And then, on top of that, we've paid up much of the benefit we've seen in 2018 from the Ogden change.

And so, the first element is the underlying dividend in the light blue, the £0.55 per share, and that compares to £0.58 last year with the move being in line with earnings per share. And then on top of that, as you can see, we're proposing paying out a further £0.11, which is about £31 million out of the Ogden benefit. And so, the total is £0.66 per share. That £31 million, that's about 60% of the post-tax Ogden profit benefit and that's roughly equivalent to how much of that post-tax profit benefit translates into additional capital surplus. That's it for the group section. And so, a quick recap would be good growth, higher profits, strong capital, higher final dividend.

Changing topics to look at the UK Insurance business and before Cristina takes over, I'm going to talk briefly about loss ratios, particularly the higher current year figure, and I'll finish with a reminder of our cautious approach to reserves. The top of the slides shows the most recent projections of the accident year ultimate loss ratios. The figures in the brackets show that development in the second half of the year. And as you can see, it's been a very positive six-month period. As we said previously, 2017 is likely to be the peak of profitability for us and the market, and it looks as if it will be a very positive year with a 4-point improvement over 2016 being due to higher premiums and generally positive claims experience, maybe with the exception of damage inflation.

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2018, shown in the bottom, started higher at 81%. So we've broken out the movement here into two blocks. The first part is, as we mentioned in August, higher large bodily injury claims experience than we would typically expect to see in the year and large injury claims here means about £100,000. And secondly, in the purple has everything else, which includes some premium deflation and continued damage inflation, which Christina will come to talk about.

Admiral, as you hopefully all know by now, tends to respond very cautiously in reserving for large injury claims. And whilst we regularly say that these projections tend to include a level of prudence, I would say that's particularly the case in that early projection of 2018.

Looking briefly at our approach to reserving and how that impacts profits. As you know, we've got a cautious approach to reserving. And so releases from back years will usually contribute materially to current year profits. 2018 is clearly no exception. And you can see that without Ogden, the release would have been 21% and including Ogden, it was at 25%, which is the highest figure we've seen for some time. Despite that large release, we have increased the margin reserves above best estimates since the half year, reflecting firstly the uncertainty around the actual Ogden rate. And, secondly, the unusual big bodily injury claims experienced in 2018. As we'd usually say, we expect continued high levels of reserve releases in 2019 if things develop as we expect them to.

And so, just to conclude on that strong set of results, good growth, high profits, impacted by the partial reversal of Ogden, still record levels on an underlying basis, very strong solvency ratio maintained with an increased final dividend. Now, on UK Motor claims, consistent, very positive prior-year development. They were higher than usual first projection of the current year.

Thanks for listening. I shall hand you to Cristina to talk more about the UK.

Cristina Nestares {BIO 18674745 <GO>}

Good morning, everybody. 2018 has been a mix year for the UK Insurance operations. We have seen strong growth in customers, in profits but we have also seen a high loss ratio both for our Car and our Household book. In terms of the market, claims inflation has been higher than the increases in premium.

Now, let's take a look at our results in more detail. Growth for our Motor book has been close to 10% in terms of customers, and most of this growth is concentrated in the first half. And actually, the majority of this or a significant part comes from the growth of our bond book. Just as a reminder, we launched a direct operation for bond in 2017 and we have been migrating policies from the broker book to the direct book. And that explains strong growth in the first half for our bond book. In terms of the second half, we started to put prices up in August ahead of the market and that resulted in a growth in the second half versus the first of about 1% for our whole Motor book. For Household, strong growth but also small loss due to weather.

Now, let's take a look at what's happening in the market in terms of prices and also for Admiral. During 2018, we saw overall the softening of premiums. But as you can see in the graph in the last months of the year, we started to see a change in the trend. In terms of Admiral, you have a graph on the right, it shows Admiral times top, and that is the number of times, the percentage of times that Admiral appears top in price comparison websites. The graph is indexed to January 2017.

As you are aware in Admiral, we tend to move prices ahead of the market because we focus on profitability over growth. So let me explain to you the graph in more detail now and what has been happening since 2017 in terms of prices. So 2017, as you can see, during the year, we became more competitive. And this is explained because at the end of 2016, we put prices up strongly because we were aware of the changes in the Ogden rate. The rest of the market has started to increase prices during Q2 in 2017 and then we start to become more competitive. In the second half of 2017, we started to see certain reductions in premium in the market and Admiral also took the opportunity to reduce prices.

Now, let's take a look at 2018. The market in the first half continued to put prices down, but Admiral kept its prices flat. And in the second half of the year, as we already told you

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in the half-year presentation, we started putting prices up in August and we continue throughout the year. So, overall, for 2018, we're seeing a small decrease in prices, whereas for Admiral, we're seeing an increase in prices of low single digit.

Now, let's look at 2019. It's difficult to predict what is going to happen but in our opinion, we expect to see further price increases to offset the impact on claims inflation. A number of things that we need to take into account in terms of claims. One is the evolution of accidental damage inflation. Is it going to continue at the same level as previous years or we're going to start to see a reduction? But also the changes in the government reforms. First, when it's going to be and exactly to which rate it's going to be the Ogden rate change? Secondly, how and when will the whiplash reform apply, which we think it will be in 2020.

Now, what we have seen so far in the first two months of the year is a small increase in prices in the market. And, actually, Admiral is up a small amount year-to-date in 2019. And I think we are quite encouraged to say that we have seen in the past few days the collective discipline of the big hotel (00:12:32) players when they are favoring profitability over growth.

So now, let's take a look at what has been happening in claims in the market. As I mentioned, one of the big features of 2018 is the strong increase in claims inflation around accidental damage, around the cost of repairing cars, the cost of parts, but also the increase in technology in cars is driving these inflation. Frequency, overall, has remained flat although we have seen a couple of increases throughout the year, but nothing too significant.

The graph on the right talks about small BIs, small bodily injury claims, and it's the year-on-year change in market portal notifications. You can see strong reductions in 2016 and 2017 partly driven by lawyers' behavior around an anticipation of the whiplash reform, but we have seen a much more flat frequency in 2018.

This is a trend for the market and they are very similar for Admiral, increase in the inflation of the cost of repairing cars and a flat frequency in small BIs. So, a big change, as Geraint has explained, is that we have seen a big increase in the frequency of large BIs.

Now, in the next section, I want to talk about what makes a good direct insurer and why Admiral continues to be one of the best. So, let's start with claims management, which is the moment of truth for our customers. According to management estimates, we have a trend to outperform in the market both in terms of speed to settle a claim but also in terms of costs. And this speed in this sort or shorter time than the market in settling claims allow us to save costs but also to serve our customers better.

Another very important part about being a good direct insurer is around being good at pricing. We have talked many times about our very granular approach to pricing, our constant changes. We've also talked about the focus that we put in fraud prevention and detection. Today, I'm going to talk about also how we take our focus on data and analytics beyond pricing.

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So you can see here an example of a total loss claims model. This is a model that predicts whether a vehicle will be a total loss or repairable during the claims call, and this allows the handler to take a different action. So, what we have seen is a saving of around 20% in the cost of misclassification of our total loss.

Now moving on, another very important area is being an efficient player, efficient in claims management, in operations but also in our marketing spend. As you know, we acquired most of our business through Price Comparison but being a strong brand also helps because you convert more when you are top but you also convert more even when you are not top. We're very pleased to see that in the past few years, we have spent around half than the average of top four competitors, but we have seen the preference, we have seen the number of customers that choose Admiral as their preferred insurer increasing, and this definitely helps when it comes to converting sales.

Second important thing is around efficiencies, and now we constantly spend around digital, around technology. But also our improvement in processes has resulted actually in a strong reduction in the number of calls that we get from our customers to the customer service department. In the past two years, we have seen a reduction of about a third of the number of calls that we get. So, overall, being a good direct underwriter for us means being good at claims management, being efficient and, overall, being very strong in pricing and analytics.

Now, let's park our Motor business and move into our Household business. The underlying performance of the Household remains strong. We have seen good growth and we have also seen a further reduction in our expense ratio. However, I think the highlight of the year has been the impact of the weather event. We have seen a loss of £3 million. A number of things happened last year. First, exactly a year ago when we were here, we were covered in a snow. It was quite beautiful. But we also had a spike in claims. Then, we had floods in the East Midlands in May and this was followed by a fantastic summer. It was even sunny in Cardiff, but of course increased subsidence claims. So, you can see the detail of our loss ratio in the graph on the right. I would highlight that the attritional loss ratio has remained flat despite its strong growth in our book, meaning we have a bigger proportion of new business. And we have seen 11 points impact of the adverse weather events and also 8 points for subsidence claims.

Now moving on. As I mentioned, we have seen strong growth in our Household book. Now, I want to highlight that this growth has been achieved despite us putting strong price increases for our Household book. So why are we growing? Well, this is partly because we are seeing good retention in our increasingly large renewals book and also helped by our cross-sell ability to sell Household policy to our Car customers.

In terms of expense ratio, we're very pleased to see that we are able to replicate our efficiency that I was talking about in Car to our Household book despite its relatively immaturity. The market expense ratio is around 45% and we have managed to have an expense ratio of 28%, better than the previous year. So overall for the Household book, we expect to continue the trend, we expect to continue growing the book despite at a lower rate than in the previous years. So, in summary, growth continues in our Motor

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book. We continue to focus on sustainable profit. And in terms of Household, good growth but impacted by weather.

Now, before I move on and give it to Milena, please let me indulge in highlighting how pleased we are in having been named the Best Big Company to Work For in the UK. Even more important to us is the fact that we are the only company that has been named one of the best companies to work in the UK by The Sunday Times since it has started more than 15 years ago. And this is important for us because it highlights the hard work that our staff do throughout the year to serve our customers. In Admiral, we always say, people who like what they do do it better. So happy staff, happy customer, which is at the end, the goal that we try to achieve.

So this is all for me, all for the UK Insurance. And now over to Milena to tell us all the successes of the International business.

Milena Mondini {BIO 18674746 <GO>}

Thank you, Cristina. Good morning to everybody. I'm very pleased to be here today to talk to you about European results in 2018. It was an outstanding year as we turn the corner of profitability and I believe 2018 will stay memorable for achieving several milestones. The main ones: We were profitable on combined base for the first time. We reached 1 million customers. As you can see our celebration in our Sevillan (00:20:10) office at very, very year-end. On top of that, we work on the launch of our first product outside Motor outside UK underwritten in-house, Homebrella, Household insurance in France, of which David will come back later. And last but not least, we successfully completed on time our Brexit project. That basically means that from January 1st, all the policies sold in Italy, France, and Spain are underwritten by Admiral España Compañía de Seguros. That is the new underwriting company we set up in Madrid.

One million customer base was the result of a joint effort of the team of all the three geographies. We have seen substantial growth delivered in all the three countries, peaking with the 40% in France. On a combined base, we grew by 18% in customer and by 20% in turnover.

So, to deliver substantial and sustainable growth is one of our main priorities. We continue to focus on building our brands. And, for example, in 2018, we progressed from sponsoring the Soccer League Serie B in sponsoring the Soccer League Serie A. That basically means that if you're going to watch one of the main league match in Italy, you are very likely to see at some point in the game, ConTe brand flashing all around the field. We continue to invest in our product and improvement for our customers. And as another example, we deliver a fast forward process for new business in Italy. It means that if you try to get a price for ConTe, you can get that with less than half of the question than in the past.

We also continued to invest in our customer service and providing better and faster and more reliable service to our customer. As we were growing, we also managed to deliver £7 million of profit on a combined base. This is the first year we deliver combined profit

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for the full-year but it's the third half-year in a row. And I'm mentioning this because there is a consistent part of improvement in all the three geography on the current year and on the back years.

As for turnover, also this has been a joint effort of the three countries, and the main driver were a material reduction of losses from L'olivier and Admiral Seguros on one side and record profits on ConTe on the other side.

For ConTe, 2018 was really a special year. It was our third year – sorry, 10-year anniversary. We were for the third year in a row in the podium of great best place to work for in Italy. At the very, very year-end, we reached £1 billion of cumulative turnover since launch and, and this is my favorite milestone of all, we reached cumulative profitability since launch at the very year-end. So now we recoup all the investment we've done so far in Italy.

So moving now to the underlying ratio of European insurance. The loss ratio was stable, slightly improved and stay at the pleasing 78%. So loss ratio is the area where we more clearly transfer our competitive advantage from UK into overseas.

Now, I explained at the European Investor Day we had in Rome in September, we look at the back years where the results are more mature and we observed as our loss ratio is better than market average and stands at something like 8, 10 points better than our direct competitors. If you look at France and Spain, we are more or less at market average as well if you account for the different mix of new business and renewals compared to the market.

It's also worth to remind that in the last few years, we increased the level of conservatives on our reserves settling, claims reserves settling that now mirror the approach that we use in UK, and translates as you can see in the graph on the right in a ultimate loss ratio projections that tend to decrease over time as for UK.

Surprising, our loss ratio have always been and very likely will always be our top one priority. We continue to look for new data, better way of using data. We continue to strengthen the team. And in the last year, we also increased a lot of the coordination and collaboration among all the areas that affect loss ratio: pricing, claims, underwriting, data analytics, and anti-fraud. And on anti-fraud in particular, we create a center of competence in Italy where the function is more developed for market reasons to help and support the development of this function also in France and in Spain.

Now, while we compare very well on the loss ratio versus the market, this is not the case yet for expense ratio. Overall on a combined base, our expense ratio is above market level for Europe as a whole.

Having said that, we do have a very good cost structure. We are very efficient particularly in Spain. And if we look at Italy that has a bigger book, we are actually very close to market level. And the cost per policy in Italy in absolute term is lower than UK. Unfortunately, average premium as well is much lower than UK, so doesn't translate necessarily in such good expense ratio.

Now, if you look at the graph on the left, you'll see that we improved 8 points in the last two years, and this improvement came from one side from economy of scale and from the other side from internal efficiencies. And internal efficiency came mainly from three areas: We increased the percentage of interaction with our customer online. We improved and automated more of our internal process that led to higher productivity. And we increased the outsourcing of some activities in Italy.

Also worth to mention that last year, we increased our investment in data and technology to continue to support the evolution of our business toward the more agile and leaner model to better support customer expectation. So, in conclusion, we believe we have strong foundation on which to continue to build upon in the future in European Insurance.

Moving now to Price Comparison sites in France and Spain – sorry, Price Comparison sites. We continue to deliver on our ambition to be a relevant leader in our market service comparison site where barriers to entry are low, but barriers to success are high. Confused had a very good year with an increase of turnover of 10% that was driven by increase of market share both in Motor Insurance and Home Insurance. At the same time, profit increased by 42% and this despite we are continuing to invest in people and in technology to continue to increase and improve our product and our service for our customers.

Also, the profit margin increased by almost 30%. And this was also driven by a more effective spending in marketing and in media. Rastreator and LeLynx, our Price Comparison sites in Spain and in France, have seen a small increase in turnover and a decrease of £3.2 million in profits in 2018. And this was driven by two elements. From one side, very challenging marketing condition. For example in France, we've seen the entrance of a third player that put pressure on media spending for LeLynx. And on the other side, we invested more in several projects, some driven by regulatory change, majority of those driven by willingness to continue to improve relative product and also to increase further diversification. And you see a couple of example on the right on the slides. So, we always believe that disruption is needed to improve customer experience. And in Spain, we'd put customer first and increase the reliability and accuracy materially of our pricing given to the customer in a market that is known for pricing accuracy. And we're pleased with the results so far in terms of market conversion rate whilst invested in diversification. An example of that is the launch of energy vertical for LeLynx in France and a mortgage comparison in Spain.

So, in conclusion, 2018 was a year of growth both for Price Comparison site and Insurance. We're particularly pleased with the combined profitability in European Insurance and the improvement of all underwriting metrics in the different countries. And on those basis and on those foundation, we look forward to continue to grow in the year to come.

Thank you very much. And now Alberto will complete the picture of our International operation at the United States.

Alberto Schiavon {BIO 20426894 <GO>}

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Thank you, Milena. Good morning, everyone. My name is Alberto Schiavon. I'm the CEO of Elephant, our U.S. insurance company. I joined Admiral in 2012. And I moved across in many departments including pricing and operation before moving to Elephant in 2017.

What I would like to share with you today is how Elephant has made clear progress in our path towards profitability. And now, the results we have achieved in 2018 are strong foundation for the future. As you know, Elephant is purely focused on car insurance for now. And our refined strategy of focusing on longer lifetime customer is paying off in multiple areas of our business, including growth in turnover and number of customers.

This shift towards high retaining customer has meant that our turnover figure from 2017 has actually delivered much more positively than expected last year. Therefore, our effective turnover growth is 16% year-on-year.

Improvements in many underlying key performance indicators also translated to reduced losses of $10.1 million for Admiral which is less than half of the losses only two years ago. Elephant is converging towards market levels across many several metrics despite still being a subscale player. Our combined ratio improved by 5 points, mostly on the back of progress in our expense ratio.

As Texas policyholder represent about half of our book, let's look at their performances individually. Our loss ratio experience in Texas has been better than the market in 2017 with further improvements in 2018. Now, bear in mind, Texas has had a very fortunate year on catastrophe losses in 2018. So, it's very reasonable to expect that the market will also improve. Outside of Texas, the loss experience hasn't been as favorable, which has mostly been driven by sharp bodily injury increase.

Now, moving to persistency. I'm very pleased with the results that we've achieved this year. The continued shift towards high-retaining customer has meant that persistency has increased by 24% compared to the 2017 projection that we shared with you a year ago. This increase in percentage of customers who stay with us longer has been instrumental in guaranteeing the sustainability of our growth.

One of my favorite metrics is vehicle per policy, which has also grown significantly since 2016 and has hit a record high in the second half of 2018. You can see this on the graph on the right, but also you would have seen this in the very nice T-shirts of our marketing department in our first slide.

While I like VPP? Vehicle per policy is a good indicator of better efficiencies and likelihood of retention, as those policies costs us less to service per vehicle and customers with more vehicle tend to stay longer. This is also consistent with the experience of our UK business. While I do not expect this metric to continue to grow as rapidly in the future, the trajectory that we see gives me comfort that the improved customer lifetime will be sustainable for the long term.

Part of our 2018 growth has also been driven by our marketing efforts. There are three main ways we attract business; first, through European style price comparison websites,

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mostly three main players. They represent 12% of our sales. Second, lead generation website, 38%, where we leverage our digital skills. Those are represented in the graph on the right.

The remaining 50% of the business is attracted through direct means. And because direct is such an important and main source of traffic, it is essential that we have strong and unique proposition that is appealing to our consumer. Elephant has pivoted this message to insurance that makes sense through our SafeCar and MultiCar value proposition.

SafeCar rewards drivers who invest in safety features, like lane departure warning or backup camera. MultiCar on the other hand rewards for buying in bulk, which also drive my favorite metric of vehicle per policy.

In January 2019, we also launched a new brand, Apparent, that focuses on delivering product features that are particularly beneficial for parents like child seat and stroller replacement. We launched this brand in Texas and we're pleased with the early indicators. We believe we can provide our customers with a great product that fit their needs, and through their loyalty, these customers will generate a longer ultimate lifetime value for Elephant.

We continue to see positive development on our expense ratio as well as a result of many factors: The longer customer lifetime, as I mentioned before; good cost management practices across the business; and a decisive move towards digitalization and self-service. On this latter point, our customers are now able to make simple policy changes and file claims online by themselves without having to talk to any of us.

In conclusion, Elephant has made good progress in 2018. Our refined strategy has had the desired effect of attracting higher retaining customers which in turn is driving more sustainable growth. The operational efficiencies that come from ensuring those customers, in conjunction with many other efforts, are having a positive impact on the bottom line. And running efforts have supported this progress and we plan to continue to increase those efforts to further accelerate our growth.

I'll pass it back to David who will talk about U.S. Price Comparison and Loans.

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David Graham Stevens {BIO 6807391 <GO>}

Thank you, Alberto. So firstly, U.S. Price Comparison. So 2017 was a very positive year for Compare. 2018, relative to 2017, has been somewhat of a disappointment, and a lot of that is a function of the U.S. Insurance cycle which you can see on the top left. In 2017, we benefited from very substantial price increases being put through by U.S. car insurers as they responded to an unusually difficult year in 2016. And that stimulated a lot of shopping in the market, as you can see from the Google volume graph below.

In 2018, insurers have returned to profitability. The rates of price increase has slowed across the market. That's resulted in less shopping activity in 2018. It's also resulted in insurers having a renewed appetite for new business themselves. That's good news at

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one level. The interest in participating on Compare has risen. We've gone up to 86 partners. We've signed some important brands like USAA and Nationwide. But where you have a situation of reduced supply of shoppers and increased demand for shoppers, you see a price increase in the cost of acquiring those shoppers, and that's what Compare experienced during 2018 relative to 2017. That has meant that we've been unable to do what we did in 2016 and 2017. We've been unable to reduce the losses in Compare in 2018 versus the previous year.

What are we doing? Well, first of all, we're writing down the carrying value of Compare by 50% to reflect the uncertainties around the business model going forward. Secondly, we are reducing overhead costs in the fourth quarter. We took them down by about 15%. We're looking at diversifying our acquisition approaches away from those which are most competitive with a direct marketing activity by insurers. And we think those actions will help the sustainability of the business, but we are still projecting losses in 2019 for Compare.

Onto the Loans business. As you can see from the graph, the Loans business grew quite rapidly during 2018 and started the year with £66 million of balances and finished with around £300 million. This is a massive industry, and this represents roughly 1.5% market share. What you can see on this graph also is that the pace of growth was fast in the first half than the second half. And this is because we've tweaked our portfolio in the second half towards increasingly prime parts of the market. In the first half, we were pretty prime; in the second half, we became more prime. And we did that in anticipation of the possible risk of economic disruption in 2019, particularly post Brexit.

The loss we made in 2018 of £12 million was in line with our projections of the half year and reflects the fact, as Geraint mentioned, the costs, both acquisition and upfront provisioning are front-loaded and revenue is back-ended. The business is 95% unsecured personal lending at an average APR of around 8.5%, which again is a reflection of a conservative approach to portfolio management, and 5% Car Finance. We anticipate reduced losses in 2019 with the caveat that, that's subject to not being a materialist economic dislocation in 2019. So, that's covered off practically all of our major businesses.

Before I finish, I'd like to talk about a couple of things, which have been irrelevant to our P&L in 2018, but when we look back in five years' time and think about 2018, we might think about these two things as material events in 2018. One of them, Milena has alluded to, the launch of Homebrella, our French renters or contents product, material for two reasons. Mainly, because it represents an extension beyond motor insurance underwriting beyond the UK, so that's an important first; but also because it's a slightly different approach to acquisition from our normal approach. It's a very mobile-friendly, (00:40:59), user-friendly product aimed at the urban youth of France. It's bilingual and a relatively simple insurtechy-type product, which is an interesting approach for us to develop in the French market and possibly beyond.

The other one I'd highlight again, which is irrelevant in the P&L of 2018 is the contract we signed at the back end of 2018 to become Ford's sole insurance provider from 2019, four or five years. We don't normally do white label, but we were particularly excited about signing the Ford deal for two reasons: Obviously, because Ford is the biggest brand in

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the UK car market; but more importantly, because with the advent of connected cars, we see the opportunity to develop very exciting customer propositions in conjunction with Ford towards the back end of that five-year period.

So, there's a couple of acorns. Just a quick summary then of what we've said: A record year, with and without Ogden; growth across the group. In my press release, I talked about "yes, but's", an alternative way of talking about the year would be a year with £3 billion. It's the year we went through £3 billion of turnover for the first time. And it was the year when our cumulative dividend payments, at least as of the May 31 when we pay out, will have gone through £3 billion as well.

So, thank you for your attention. I'll open it up now to questions from the floor and the phones.

Q&A

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

We have upgraded our technology – or to be more exact, UBS have upgraded the technology. You will find microphones in front of you. So, if you have a question, pick them up, there's a button to press, the light will go on, and then, you're on.

Q - James A. Shuck {BIO 3680082 <GO>}

(00:42:52) Yes. Thank you. It's James Shuck from Citi. On the subjects of technology, actually, so my first question is really around your IT capabilities. In the UK in particular, you're implementing Guidewire. We've seen other companies kind of looking to integrate Guidewire and Radar Live as an integrated approach, opening up their systems more to cloud-based approaches which allow much more flexibility. Could you just update on where you are with your own IT capabilities, use of outsourcing, and cloud, in particular, please?

Second question is slightly complex, but if I just compare the book to loss ratio in 2018 with the ultimate loss ratio in 2018, there's about 11-point difference this year. If I look last year, at the year one – book to loss than the year one ultimate, that was closer to 13 points. I think you do allude in the release to the margin or the best estimate coming down. It looks like it's come down by about 2 points. Is there anything kind of I'm missing there? Is that a useful guide for thinking about that margin?

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

Can we do – we'll do those two, and then come back. Cristina, do you want to do the technology, and Geraint will do the...

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. So, in terms of Guidewire, we completed the implementation of the policy and billing centers. And we're running with Guidewire for about two years now. In terms of Radar, we

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use a different rating engine, and it's already integrated with Guidewire. And we are already in a plan to migrate certain parts of our business to the cloud.

In terms of the margin, you're basically – what we've said in the report is that the margin above the best estimates moved down slightly year-on-year moved up slightly half year to full year. I don't get to heads up on individual years. We think about the margin across all years. What you tend to see is a widening margin as the year becomes (00:44:58). But yeah, you've basically got the point. The margin is slightly smaller at the end of 2018 compared to the end of 2017, but bigger at the end of 2018 compared to the middle of 2018.

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

(00:45:09) come back. We'll just let some other people and I will come back (00:45:12).

Q - Sami Taipalus {BIO 17452234 <GO>}

(00:45:21-00:45:26) There we go. Does it work? Yeah. Sami Taipalus from Goldman Sachs. Just a first question on the Motor profitability. I think you said last year that you expected 2017 to be the best year in this cycle. This year, it's obviously got a bit worse. It's kind of hard to see from your presentation how much worse, so it'd be great if you could talk a little bit more about what you see as hampering, what you see as the underlying level? And also looking ahead into 2019, how do you see pricing tracking versus claims inflation? And then the second question I had was on the PRA review into pricing practices. If you could just give maybe a view on what you see there, and whether there's any risks or opportunities there. Thank you.

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

Do you want to do the PRA review, and maybe Geraint, just sharing on that, doing the loss ratio in the cycle?

Yes.

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. So, it's actually the FCA, who has been doing a marketing price study. They started looking at the household book, and now they are looking at all the practices. There is also a bigger research into different sectors in the economy looking overall (00:46:30) longstanding customers.

Now, we are in close collaboration with the FCA, but it's hard to predict what they're going to do, some point in the summer, what type of reforms they are going to announce. We think that any company with a large renewal book, like ourselves might be impacted. However, to say that, the majority of our customers come from price comparison, this is a very transparent industry. And to give you an example, our Car customers, around 80%, of them engage with us every single year. So, overall, we don't expect a major impact.

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You also ask us about what the pricing it's going to do in 2019, and whether we think overall for the market is going to catch up with claims inflation. The answer is we think that is a direction of travel definitely, but it's going to be impacted by the Ogden rate. What is the actual rate that is going to be moved to? Is it going to be impacted by whiplash? Is it going to be implemented in April 2020 or later in the year? And also, around the claims inflation, as I said, I'm very encouraged by the fact that our competitors, at least, the big quoted ones, they are taking a very rational approach to growth and to margins. So, overall, if we continue to see claims inflation growing, we will see price increases.

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

Thank you, Cristina.

And I would say, in 2017, we've actually seen that ratio improve over the course of 2018. So, on page 9, you saw the 2017 accident year was 3 points better than the second half of the year, 1 point of which was due to Ogden. So, 2017 has got better. And we've released – report the book loss ratio down 3 or 4 points, I think, in 2018. The 2018 loss ratio was worse than 2017 for the reasons we talked about earlier, large BI, damage inflation, and some small premium reduction.

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

(00:48:21)

Q - Dominic O'Mahony

Hi. Thank you. Dominic O'Mahony, Exane BNP Paribas. So, just three questions if that's all right. The first is, there's been prudence sort of – there was a bit of relaxation in the first half, a bit more conservative in the second half, sound likes net slight relaxation. Could you give us a sense of what PYD ex-Ogden might have been even in some of that out?

The second question is, you indicated that your time stoppers (00:48:50) come down since beginning of 2017. But, of course, that's only pricing comparison. Could you give us a sense in the change of the portion of the book coming through pricing comparison versus direct? I've very aware that obviously MultiCover and so on changes that dynamic.

And the third is, it's bordering – forgive me, maybe more difficult to answer. If I look across your portfolio beyond UK Car – but you look at Home, you've implied that actually loss ratio is higher because you're investing in growth. The first year is less profitable than the second year. The same is true in International. And you have a compound effect of the loss ratio being higher for first year. You have the expense ratio being higher because of acquisition costs. If you were to stop growing to purely manage the book for cash, could you give us some sense of how much that would impact your earnings? I know it's a difficult question, but some sort of direction would be very helpful. Thank you.

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

Cristina, do you want to do price comparison 2017 without net? Let's start with price comparison and Geraint on 2017. Milena, do you want to do International if we stop

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growing; and Alberto If we stop growing?

A - Cristina Nestares {BIO 18674745 <GO>}

So, I understood that your question was what happened to prices in the direct non-price comparison and how the proportion change materially?

Q - Dominic O'Mahony

(00:50:10)

A - Cristina Nestares {BIO 18674745 <GO>}

Yeah. So, in terms of volume, no significant change in the proportion of business that comes through price comparison versus direct. As you know, we have a MultiCar proposition and also a MultiCover proposition, and that has been growing, especially around MultiCover because it's new. But, overall, as I say, we keep quite flat the proportion of customers that come through direct.

In terms of Household, I think I didn't explain very well. Actually, what we were highlighting is that we grew by 30% customers, but what we call attritional loss ratio. So, that is taking the adverse weather event impact out, has been flat year-on-year, almost implying that new business book has a higher loss ratio in general, and we have been able to keep the overall attritional loss ratio flat. So, that's quite encouraging. In terms of profitability, if it hadn't been for the adverse weather event, we will have made a profit of about £7.5 million, and that is a continuation of the upward trajectory that we had in profit increases since 2017.

Prior development. So, if you look at slide 10, and the pack that it shows our ratings over the past few years. We tend, on average, to release something in the order of 20% in terms of releases as a percentage of premiums. 2018 would have been very similar to that before Ogden. And the graph of the previous page show you certainly the impact of how those ratios have developed. One point of that improvement is something as well. (00:51:36)

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

Stopping growing, mainly international, good idea?

A - Milena Mondini {BIO 18674746 <GO>}

Of course, all the three business, will have better loss ratio if we stop growing and better economics overall in Europe. This is more the case for France and Spain, because in those markets, the business is more front-loaded. They're high acquisition cost and the delta between loss ratio and new business and renewal is quite large. It's not necessarily the case in the same extent in Italy.

So, in ConTe in Italy, we're already profitable. We would be more profitable, but the main difference will definitely be in Spain and in France. I commented in September that we're

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close to breakeven in Spain. So, you may assume that we stop growth. We would be profitable, of course, with the volatility of a smaller business. In France, we are still investing growth. So, it's not the case yet, but that's definitely would be the trend and will make us closer to our goal.

A - Alberto Schiavon {BIO 20426894 <GO>}

From a U.S. perspective, high retention customer tend to have, exactly as you said, a higher new business loss ratio than renewal. So, we believe that we will have better loss in the year coming up. Also, advertising costs are very high, and therefore, you're able to spread them over a longer lifetime. If we said – took your argument to stop growth, we'll probably be close to breakeven. We also have done some internal modeling of what's the right balance between growth and profitability. And we believe that slowing down the business to achieve that breakeven wouldn't actually be the optimal solution in a longer timeframe.

Q - Dominic O'Mahony

It was more a suggestion...

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

Yeah. No, no. I mean, interesting hypothetical question. But these are all businesses where we see real momentum from being bigger: Household, International, all of them, not just through economies of scale, but also through data and economies of understanding the market. And so, were we to slow down, we'll be putting aside a really interesting profit opportunity for four or five years, hence. Greig?

Q - Greig Paterson

Can you hear me? Good. Greig Paterson, KBW. I'm just a little confused. I just want to nail down the right story. Geraint, you said rates were down a bit, and the other comment was rates were up a little bit. On a written basis, for 2017, including the renewal and new business effect, what was the year-on-year rate increases? That's question one.

Question two is the burn rate for claims inflation in the UK. Others are saying it's circa 5%. Are you similar to that? And the third thing, this was a little confused. In terms of the ultimate return loss ratios, did you say there was an increase in prudence year-on-year from 2018 to 2017. I thought that was a comment that was made.

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

I'd do that one very quickly. There was a good increase in prudence from the half year to the full year, and a small decrease in the size of the buffer from the full year to the full year.

Q - Greig Paterson

(00:54:47)

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

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Yes

Q - Greig Paterson

(00:54:48-00:54:57)

(00:54:58) in the level of prudence. What we've seen in 2018 is a bigger – a proportion of that cost is from largely bodily injury. And our approach to those types of claims tends to be very cautious early on.

Q - Greig Paterson

(00:55:10)

Well, we would – I wouldn't bank it, and I wouldn't spend it, but I would – what you normally expect to see on a ratio that includes a decent chunk of large BI, you'd expect to see that improvement over time.

Q - Greig Paterson

(00:55:23)

A - Cristina Nestares {BIO 18674745 <GO>}

Greig, in terms of rate, two things. When we look at the (00:55:28) almost an average rate increase for the whole year 2018 versus 2017, order written, yeah, when we look at that, I'll say, because we increase rates for 2018 low-single digits, but that only affects August onwards, yeah. When you compare this what we see is a very small increase in rates from 2018 to 2017.

Q - Greig Paterson

So, about 1%, 2%?

A - Cristina Nestares {BIO 18674745 <GO>}

I'll say something like that. Yeah. That's versus the market when you are comparing according to the ABI. The average written premium of 2018 versus the average written premium, you'll see actually a decrease of around 3 points. So, in our comparison, 3 points versus 1% to 2%, yeah.

Q - Greig Paterson

(00:56:07)

A - Cristina Nestares {BIO 18674745 <GO>}

The burn rate, if you may, I'm going to split it in three parts. One is accidental damage that is the cost of repairing cars, then, there's a small BI, and then there's a large BI. When we look at the trends, the ABI data in terms of the cost of repairing cars and the frequency, we are in line with the market. Yeah. When you look at the small BI, similar to the market. It's actually large BIs when there's a difference. So, I see some competitors talking about a range of 3% to 5%, I'll say, we are in the higher part of that range.

Q - Greig Paterson

(00:56:39)

A - Cristina Nestares {BIO 18674745 <GO>}

Yeah.

Q - Greig Paterson

What's happening – what's your experience? Do you think that's going to see that trend continuing to 2019, or should we just say (00:56:51)

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

In the interest of brevity, I will take that and say, we've seen that large BI can be a very random thing. We saw, as we mentioned at half year, higher levels in Q2 and Q3, not so much in Q4. We're always very cautious in that context, but it's a reasonable hypothesis to say, it's not based on some sort of underlying change. But we would like to see that proven by the (00:57:16) 2019. Now, we go over there next.

Q - Edward Morris {BIO 16274236 <GO>}

Thank you. Ed Morris, JPMorgan. First question is just on capital and dividends. So, the slide 48 is very helpful, giving us a bridge of how your solvency ratio moved. Can you just talk a little bit about why capital generation was a little lower than dividends in the sort of ordinary part of those earnings? And if we see the trends going into next year of softer pricing, would you expect a similar dynamic on capital generation versus earnings than dividends? Second part of that question is if you could just clarify. I think you said the £0.11 extra dividend sort of offset the capital impact of Ogden. On that chart, it implies that there was an uplift from that, so if you could just clarify that?

And then second question – I think second question. Loans, the loan book £300 million is quite large now. And I think you said we'd have an updated year-end and how you plan to finance this. Just how big can it get, without needing to resort to third-party financing and what happens next on that book? Thank you.

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

I'll do loans ,and then hand over to Geraint on capital. We had expected to do a longer session on loans. Six months ago, we flagged that. We will do a longer session in six months' time. What we found off the road Investor Day is a lot of interest in Elephant and a desire for us to spend more time on Elephant. And there's also a lot happening in the results as a whole. So, what we thought we'd do is we'd park more detail on loans till six months' time, and we'll get a bigger picture. If you want some more understanding of how we finance loans to date, Scott is available for a conversation afterwards.

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Yeah, Page 48, the left half of that slide shows capital generation on the old Ogden basis for these – technically the current Ogden basis, I guess. 21% is clearly lower than 29%. 29% is the dividend. That's obviously on a IFRS basis. 21% is the underlying economic capital generation. And when you've got a loss ratio for that financial year that looks higher than proceeding years, then you'll see less economic capital generation. Over the course of the cycle, those things will even out. You'll get some periods where economic capital generation is higher than the dividend, somewhat it's lower. Technically, that should even out. 2018 was a year with higher loss ratio, hence that green bar is lower than the red bar.

And on the right-hand side, Ogden, what you see with a change in Ogden rates. You see an associated increase in our assumption with how many PPO claims we get. And that attracts a high capital requirement. And so, the 16% is the post-tax capital benefit. The 6% in the middle is how much of that we paid out. And the 3%, which is bar 6, is the increase in the capital requirement. We will pay out £30 million of the benefit we've seen in 2018, and we'll pay out some more over the next couple of years. So, ultimately, we'll pay out approximately 60% of the post-tax IFRS profit benefit. I'll talk you through it later. Does that make sense? There's not a pound-for-pound impact on capital compared to our profits, because of the capital deployment associated in more PPO claims.

Q - Nick Johnson {BIO 1774629 <GO>}

Hi. Nick Johnson from Numis. Question on quota share profit commission. So, on slide 50, obviously, there's quite a striking move in projected combined ratio of 2018 to 98%. It's getting close to 100%. Could you – and I take on board your discussion around loss ratio, the reasons for that moving.

Can you just remind us the dynamics of the profit commission arrangements? It's very complicated. First of all, is PC linear to combined ratio? And any sort of rule of thumbs you can give us in terms of how you think about profit commission earning out over the next few years, given that combined ratio projection move? That would be very helpful. Thanks.

Yeah. What I would say for 2018, the way our quota share reinsurance contracts work is, effectively, we pay a margin to the reinsurers, and anything beyond that margin we take is profit commission. The margin is less than 2%, but think of it as 2% for simplicity. And so, if that combined ratio is stuck at 98%, you get zero profit commission. I would refer you back to the comments I made earlier about the loss ratios, and how they tend to improve over time. The profit commission, therefore, after that 2% margin is 100% to Admiral.

On the coinsurance with Munich Re is slightly different. It's tiered. And so, as the business gets more profitable, we get more of the profit. We're not allowed to disclose the exact terms. But for a combined ratio in the 90s, we get something like two-thirds of the profits. For a combined ratio of low-90s, we get two-thirds of the profit as profit commission.

Q - Nick Johnson {BIO 1774629 <GO>}

(01:01:50).

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In terms of the earning profile, what we tend to do early on is obviously book a loss ratio that will imply that an underwriting year is loss-making, and then bring that out over time. The profit commission, you see in the notes of the accounts with the current year profitability is coming from. And we tend to recognize profit commission over the course of three, four, five years usually. But they'll be done in year one, very little in year two, and then it starts to flow into year three, four, five.

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

It's Andrew Crean of Autonomous. A couple of questions. One, I think you said, for 2019, you think the pricing in claims will move together in UK Motor. That's after the best year in the cycle in 2017. Do you expect that now the pricing and claims patterns have reached their worst that we can look for improvement longer term as opposed to further margin decline?

And then, secondly, on the sort of scope of the overall business. You are year-by-year introducing new products, in new plans, in new areas, time and time again. Remember, when you started down this road, you said that it was going to be a shortcut approach and that you've take it fairly hard in those view if you thought any of your launches weren't going to be best-in-class businesses. I'm just wondering, as you look at your portfolio, whether there are any businesses now where a more hard-nosed approach might be the best idea, thinking possibly compare where you've taken down your percentage of share.

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

Do you want to talk first about the UK prognosis for claims costs? And then, I'll come onto calling the runts?

A - Cristina Nestares {BIO 18674745 <GO>}

I'd say three main considerations on our claims costs in 2019. First is the inflation of car repairs, we think, it's going to continue in the higher three to five range. Then, in terms of small BIs, we think we reached a flat frequency. Costs are under control but it's going to depend on what happens in the whiplash reform for 2020.

And there might be some anticipation to that, because when it comes to MOJ portal claims, small bodily injury claims, it's not just the extra frequency, it's also the lawyers' behavior in anticipation on what will happen next. So, you could have either a spike into the terms of the frequency of these claims for a solid period in anticipation of the whiplash reform. And the third change is the actual Ogden rate that they're going to announce shortly. And I'd say, all in all, it's what we need to take into account. Does that answer your question?

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

It was more general question, is whether we've reached the bottom of the pricing cycle. If you're now saying that you hope or think that pricing claims will match each other having not done so in 2018, whether you think now we've sort of reached the bottom of that sort of pricing cycle in real terms relative to claims.

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A - Cristina Nestares {BIO 18674745 <GO>}

We've seen encouraging signs so far this year. We have, (01:05:05) talking about a very disciplined approach. So, I'll say, hard to tell, but possibly no.

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

(01:05:14)

A - Cristina Nestares {BIO 18674745 <GO>}

No, I think we will see a continuation of price increases.

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

So, I think possibly we might have reached the bottom?

A - Cristina Nestares {BIO 18674745 <GO>}

Yeah.

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

One of the interesting other variables of course will be whether we return to fall in frequency, which also might be a function of the economic climate we're in. So, one of the interesting things about Car Insurance is it tends to be somewhat countercyclical in terms of how it works. People have to continue to buy it. And then, they don't use their cars as much.

In terms of actions to address businesses, which are succeeding less well than others. I think what you can see with us is the track record of doing two things. First of all, we do sometimes recognize that we're not able to compete effectively. Obviously, a long time ago, we pulled out of Germany; more recently, we pulled out of China with Price Comparison. Unsurprisingly, we don't tend to talk – revisit those things that we've pulled out of, but we are willing to do that when it's necessary.

The other thing that we consistently do is we look to minimize risk when we're trying to do new and exciting things, often in the form of partnerships through reinsurance internationally. And in the case of Compare, for example, through partner shareholders that have reduced the risk of the businesses that they've been helping us on going forward. We will take a rational view of the potential of each individual business, and I think, rationally, when we look at Compare, we see a lot of potential upside as well as a lot and lots of risk.

Thanks. Tony Owen (01:06:51), UBS. Two questions please. So, firstly, on the internal model, what would you need to see to be comfortable submitting the application? Where do you need to get to? And secondly, on the consumer side. So, we run the survey across Europe looking at consumer sentiment and demands, and how are you guys are doing versus those. There are two interesting things relevant to Admiral this year. Firstly, it looked like continental European shoppers were shopping around a bit more. Are you

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seeing that, firstly? And secondly, on L'olivier, the French brand, actually there was a big spike in consumer awareness this year. Has there been any specific marketing campaign? Thank you.

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

Great. There are two tickets to Paris that are waiting for you outside. Milena, do you want to talk to those?

A - Milena Mondini {BIO 18674746 <GO>}

Yes. So, the first question is, are we seeing continental European consumer shopping a bit more. I would say, the mix is a mixed picture. In general, there is an underlying trend of more shopper, but with some bumps in the road. In Spain, for example, we've seen a quite weak first half of the year, but much more – a bit stronger second half of the year. In France, we have seen some increase. It was a pleasing year until the very last quarter that was quite disappointing.

L'olivier had an increase in awareness, I think that was your second question, and we're very pleased with the results, to be honest, in terms of brand awareness. I would say everywhere, but particularly, in France. And yes, we came up with a new campaign. I think it was the very end of 2017 and looking a new one. And we're quite pleased with the results.

What makes a bit of a difference in the different countries, the level of media spending of our competitors. So, Spain, for example, we have very strong competitors that used to spend tens of millions per year. And in France, the direct spend in the market is not as great. So, we tend to have a bit higher return on media investment.

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

Thank you.

(01:08:58)

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

Sorry.

(01:09:01) on internal model, I would say a couple of things. Firstly, we recognize it's disappointing that it's delayed. I would say that it's 100% not down to the efforts of our team. We worked very hard on this and are disappointed that we see a further delay.

There are a few things that we need to see before we are fully ready to apply. Firstly, we need to finish the work on confirming that the scope is right. We expect to do that in the very immediate future. And then, secondly, we need to see a process of cleaner validation and improved set of documents that sit around the model, and a number of other small things. But those are the key things. We'll update further in six months.

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

Thank you. Andreas van Embden, Peel Hunt. Just coming back to the large BI claims. I just wondered could you just remind me why that trend is continuing in the third quarter. Are more sort of settlements falling outside of the claims portal? And are you going more to court, or lawyers becoming more aggressive, PPOs, just what is the trend?

And just looking at reserving, is the sort of the large BI inflation, is that just the new claims or really only frequency, or do you also see some severity in your case reserves? Because if I look at the sensitivity to the ASHE index, you see it's more than doubled. Is that to do with large BI claims, or just PPOs? And then, finally, on your reserve margin, if this large BI trend continues in 2019, would you probably hold on longer to that margin over time and be more cautious on what you release? Thank you.

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

Okay. I'll throw the ASHE on over to Geraint and the margin one. On the large BI claims, this is all about severity of 100,000-plus new claims. It's nothing to do with settlements. And the 100,000-plus claims for smaller ones, so those will take two, three, four years. The bigger ones will take six, seven, even if they have children, 20 years to settle. So, it's about new notifications. And we have seen in the past that, that can be – the volume of new notifications is up very big numbers. It can vary quite a lot quarter-by-quarter, year-by-year.

Actually, inflation, one implication of the change in Ogden discount rate is a change in PPO propensity assumption. So, we've got twice as many PPO cases, and therefore, these sensitivities are twice as big, assumed cases rather than actual cases, I would say. Margin in 2019 – we need to wrap it up, I'm being told. Margin in 2019, if we see further volatility on large injury claims, then that would encourage us to retain the margin. If we see much more normal experience in 2019, which is like 2017, then we'd bring that down further. Is that okay?

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

Sorry. We have are running out of time, I'm afraid. There was no one on the phone? Okay. So, thank you very much for your questions. We will be hanging around, some of us, for a while if you want to pick up anything you haven't been able to pick up in the open forum.

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