Y 2020 Earnings Call

Company Participants

- Neil Manser, Acting Chief Financial Officer
- Penny James, Chief Executive Officer

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Other Participants

- Andreas van Embden
- Faizan Lakhani
- Freya Kong
- Ivan Bokhmat
- Jon Denham
- Kamran Hossain
- Ming Zhu
- Oliver Steel
- Thomas Bateman
- Will Hardcastle
- Youdish Chicooree

Presentation

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Penny James {BIO 15157212 <GO>}

Good morning, everyone. I'm delighted to be here live in London for the first time this year, and I'm joined by Neil Manser, who many of you know well and is our Acting CFO. It's actually really nice to be together in the same room for the first time in almost a year.

Before I hand over to Neil, let me reflect on what has been an extraordinary year for all of us and how far we've come at DLT during that time.

In March last year, we were business with virtually all of our people were in the office full-time. And that leads to a business that had all of our people working from home within the space of a weak. Within the first month, we found new ways to work and communicate and have refocused on keeping our transformation on track.

Thanks for the commitment and energy of our people despite the many COVID challenges, once again, we've traded well through the year. Our own brand policy count growing by 2.2% driven by strong segments of growth across the business and our model of disciplined underwriting helping us deliver a combined operating ratio of 91% and improved sustainability of our earnings. The investments that we're making in our

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capability is designed over time to step change our competitiveness and deliver profitable growth. And it's already driven improvements in our financial performance, which has enabled us once again to return surplus capital to our shareholders.

Today, we are proposing a final regular dividend of GBP0.147 per share, an increase of 2.1% over 2019. But we're also announcing a GBP100 million share buyback program as we begin moving back towards the middle of our risk appetite range.

Finally, our vision for insurance is of a world where we are a Force for Good. As we've navigated the challenges that 2020 has presented, this vision has been at the forefront of our thinking. And that's why we have actively chosen to invest in supporting our customers through a range of financial measures, our pleasing physical, mental and financial well-being and our communities through donations to charities helping thousands of families cope with the effects of the pandemic.

I'll talk more about my thoughts on the future of the business later in the presentation, but for now I'll hand you over to Neil who's going to take you through the financials.

Neil Manser {BIO 5571223 <GO>}

Thanks Penny, and good morning, everyone. This is my first time in London for almost a year, so I'm really excited to be here and it's slightly strange presenting without the risk of one of my kids or the cat interrupting. I'm going to take you through the 2020 financials. And show how they set us up well for 2021 and beyond. So let me start with the highlights on Slide 5.

Now Penny's talked to some of these already, but given their importance, I think it's worth repeating them. Operating profit was GBP522 million, another year of operating profit in excess of GBP500 million. We grew our direct own brands policy count by 2.2% with strong momentum across many parts of our business. We made progress in reducing underlying costs and today, have announced a new property site strategy, which is incremental to our original plans. And we also saw underlying current year improvements across the book and together with a modest COVID tailwind, we grew current year contribution to 65%. And finally, we delivered another year of strong returns to shareholders and are commencing a buyback.

Turning to the results summary on Side 6, now let's start with the obvious. As a result of extraordinary events last year, there are many more moving parts than average year. And as I go through the presentation, I will try to pull out as far as possible the one-off impacts of COVID. But increasingly as we've gone through the year, we've quickly adapted to turn the impacts of the pandemic much more into business as usual. So putting to one side the modest COVID benefit, the main macro message I want you to take away is that we've made good progress on the underlying current year performance, which has helped offset the expected lower level of prior year reserve releases.

So taking underwriting profit first, this is well ahead of 2019, and there are three key movements to highlight. First, the impact of COVID. On the positive side, we have

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reduced claims frequency in motor and commercial, but this was partly offset by a number of factors including the investments we chose to make to support our customers, our people and society, the impact on our travel business and COVID-related business interruption claims. Secondly and most importantly, within the underwriting result, we made good progress in improving the group's underlying current year profitability. This is from increased pricing and writing sophistication and counter-fraud capability and especially true in motor and commercial. And when we take these two facts together, they more than offset the higher weather costs in 2020 and lower prior year reserve releases.

Now COVID also affected instalment and other income, which was 12% lower due to the impact of reduced motor premiums instalment income and claims volume on other income. Investment returns of GBP95 million is down 30%, reflecting lower reinvestment rates and some write-downs, a respectable result in a challenging market. Finally, we once again delivered a return on tangible equity well ahead of our 15% hurdle rate at 19.9%. So overall a good set of results delivering against our financial targets.

Turning to policy count and premium on Slide 7, the most important figure on this slide is the 2.2% policy growth we delivered across our direct own brand portfolio. This is a good result as these are the brands that create the most value. Now there are a number of factors driving this, but I'll pull out two of note. First, we've talked before about how we set up a price comparison website or PCW hub within motor and home and this has really starting to come through in growth. This improved focus and capability including Churchill being a clear PCW first brand has helped us to win more business. Secondly, we're seeing growth where investments in our transformation are furthest ahead particularly in Green Flag and Direct line for business.

Outside of own brands, you can also see growth coming through in NIG. It's been delivering great service this year compared to some of its peers, and this is showing through in its numbers.

Moving to the right-hand side of the slide, you can see policy count, I've talked about translation of premium growth across most own brand segments, the one exception being motor which we'll cover on the next slide. So overall we're pleased with how we traded to the unique conditions for 2020 with strong momentum across many parts of our business.

Now let me move on to the segmental results, starting with motor on Slide 8. As expected, this is where we've seen the main impact from COVID. But crucially, we traded well in spite of circumstances and saw underlying progress in the loss ratio. Now there's a lot of details you can see on the slide, so I want to pick up on a few of these points to you a sense of our performance.

First, looking at policy count, now 2020 was a challenging year for new business with fewer new cars and new drivers entering the market and generally lower shopping. But despite this, own brand policy count was up 0.6%. And we delivered a number of support measures for our customers throughout the year, and we saw this payoff in high levels of retention. In addition, both Churchill and our newest brand Darwin continue to deliver

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strong growth. Own brand premiums were down 1.5%, partly due to lower risk mix, but also broader market deflation, which accelerated during the second half of the year.

Secondly, turning to underwriting profit, underwriting profit was up substantially with a 14 point reduction in the current year loss ratio. As you'd expect, most of the improvement was due to lower claims frequency, which in Q2 is running around half usual levels, but this was in part offset by severity being higher than the 3% to 5% medium-term expectation and this was a result of longer car hire periods and high cleaning costs.

But there's a really important trend in here, which I don't want you to miss. If you strip out the COVID impact, our ongoing pricing and underwriting actions account for around 2 points improvement to the current year loss ratio. And as Penny will come on later, this is a trend that we can expect to continue as the benefits of the new motor system come on-stream this year.

And finally, turning to reinsurance, reinsurance pricing has been rising in recent years, but our claims performance has been strong. So in this context, we revisited the level of cover we're buying and whilst we've kept the excess unchanged at GBP1 million, we've chosen to retain 25% more risk on the layers below GBP10 million. We've also introduced an aggregate retention claims above GBP10 million. In most years, this will give us a better result.

Let me move on to Slide 9, where I look at the current trends in the motor market as we look ahead to the rest of 2021. Now earlier, I spoke about the prudent deflation in motor that we saw across the second half of 2020 and this has continued into 2021. Now I don't think it should be a major surprise as claims frequencies remain subdued during lockdown. However, looking forward, we would expect the deflationary pressure to ease off as we come out of lockdown. Like many insurers, we look ahead 12 months and the underlying trend, the severity of inflation has not gone away, running at or above the top end of our normal range.

Whiplash reforms coming from May and this could partially offset inflation in the short-term, but it's difficult to know how much of this is already in the system. So the first quarter, let's start in the same vein at the end of last year. Over the course of 2021, as the primary rebound, we would expect to see pricing more closely resembling underlying claims inflation.

And in terms of translation, we know that by handling around 50% of our accident and damage claims, our accidental per centers give us a real edge here. We've already been able to partially mitigate some of the severity strains through additional shift patterns to keep productivity high, while importantly managing the safety of our people as we can at a lockdown and the demand for payers grow, being able to control damage costs will become increasingly important for profitability. From a trading perspective, we will continue to deliver great value and service to our existing customers and be disciplined on new business where we think the market has gone too far.

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Now let me move on to the other segment results, starting on Slide 10. Starting at home, where again we delivered good results. Home grew own brand policy count by 4.1% due to strong growth in the PCW channel. Operating profit was again over GBP100 million and the combined operating ratio of 87.1%. Now underwriting profit was lower than 2019 due to an increase in weather claims early in 2020 alongside a reduction in prior year reserve releases. And you'll recall, the 2019 was an exceptional year for both of these as you can see in the table on the slide.

Excluding the impact of major weather, the current year attritional loss ratio improved by around 1 point, continuing a positive trend. As I look into 2021, there are two key trends to call out. First, the upbeat housing market continues to support new business. And secondly, as we go through the year, the impact of pricing practices will become increasingly important. And Penny will come onto this in more detail later on.

Moving to the right of the slide, it goes without saying that any business involved in travel has got a really difficult year and we are no exception. Other personal lines, which includes travel but also pet, creditor and our mid- to high net worth business, reported a loss of GBP44 million in 2020. This is broadly in line with where we were at the half year. We continue to reserve cautiously for travel and also saw higher claims handling costs as we increased the number of people to service the higher volume of travel customers who needed our help. Now the next few months will be crucial in determining what the travel market looks like. But as the market opens up again, we would expect to bring other personal lines back towards breakeven by the end of the year.

Now turning to commercial and rescue on Slide 11. Commercial really has had an outstanding year and we are seeing the benefits of its transformation driving both profit and growth. It delivered strong top line across all of its brands and products. On a normalized basis, operating profit improved by GBP10 million. The current year attritional loss ratio improved around 6 points, significant improvement, and this is where the benefits of the transformation are really coming through. And Penny will touch on this in more detail later.

Commercial and motor, which covers bands and fleets benefit from lower claims frequency, but not to the same extent as personal motor, and this is largely offset by COVID-related business interruption claims. As you know we were not a party to a Supreme Court case and we booked GBP6 million of estimated claims costs at year-end, down from GBP10 million at the half year. So overall, 7% premium growth and a 3.5 point improvement in the normalized core is a great result.

Moving across to rescue, another business doing fantastically well. Rescue delivered double-digit profit growth of the second year running with GBP51 million in 2020. And this is partly down to the growth in Green Flag, Direct, offsetting the reduction in linked and partnership sales.

Now outside of a lockdown period, Green Flag saw some of its best-ever trading moments, really demonstrating its challenger position in the market. A risk we also improve the combined operating ratio by 5 points to 76.5%. And around half of this

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improvement was COVID-related. So overall, both commercial and rescue delivered strong results and exit 2020 in a very healthy position.

Now let me turn back to the group results. I'm going to start with expenses on Slide 12. As a result of our continued focus on costs, we've made good progress across many expense initiatives in 2020, which will support our longer term expense ambitions. Operating profit -- operating expenses, sorry, was GBP724 million in 2020, GBP30 million higher than prior year, with the increase driven by our choice to invest in Force for Good initiatives during the pandemic.

Excluding this COVID support and amortization, our underlying cash costs reduced by around GBP10 million, reflecting progress on the group's cost transformation. Now we did some initiatives move to the right in 2020, but on a run rate basis, we expect it back on track by the end of this year. So overall, we're increasingly confident in delivering the actions required to hit our 2023 20% expense ratio target, and I'll come on to that now on Slide 13.

So given the importance of cost reduction to our investment case, it's important to spend a few minutes on this slide. Before I start, I want to reiterate that many of our initiatives are not just about costs that pass from a wider transformation to deliver a step change in our customer experience and efficiency. There are three key areas that I'd like to draw out: First, our customer facing areas of claims and customer operations where we've been targeting a 20% reduction in cost to serve. Now this is not to be confused with the overall 20% expense ratio target.

We have amazing people in our contact centers, who many of you have met in Doncaster, but you've also seen the manual processes they happen to navigate day in day out. By moving Churchill and Direct Line onto the new motor system this year, we will unlock significant digitalization and automation opportunities. We'll also be able to attack print and mail costs. We've already started a paperless journey in Commercial and Green Flag and seen dramatic reductions in the amount we've spend. That's a great example of triple win, better for customers, cheaper for us and kinder to the environment.

Secondly, we are reducing the cost of our IT systems. As we've talked about before, we're transitioning away from a legacy technology stack to one that is cheaper to run and change. But where is the right thing to keep older technologies in the short-term, for example, in the mainframe, we're reducing the cost of ownership through new providers and optimizing usage. Both of these actions are reducing our overall IT run costs.

Thirdly, moving to more agile ways of working, following the success of agile ways working in Commercial, we've restructured our trading change areas to a fully agile operating model. By doing this, we can respond faster to changing customer demands, reduce the cost of change and therefore contribute to both efficiency and growth. Now the cost of all these vessels we've been making has been capitalized and so start to amortize through the P&L over the coming years. As we've said before, this will pick-up in 2021. However, it's important to remember that this is non-cash and is already being reflected in capital. Together, these plans give us the confidence around delivering our 20% expense ratio target in 2023.

Now I spoke earlier about the impact that COVID has on our cost base in 2020, but it also provides further longer term opportunities, which I'll talk to on Slide 14. I don't need to say that there were not many of linings from the last year, but seeing how well our people can deliver from home has presented us with new opportunities. So good for our people, save us money and also better for our planet. We've created a new property site strategy to address this which will give our people more flexibility on how and where they work. And as a result, we expect to reduce the space we occupy over the next two years. This, in turn, delivers incremental run rate savings of more than GBP10 million per year from 2022.

As you know our biggest site for head office in Bromley and to enable to restructure this site, we have acquired it by buying out the existing 17-year lease. By effectively bringing forward this liability, we will incur restructuring cost of GBP85 million this year. We will look take further property actions over the course of this year and next year, but none are expected to be as material as the Bromley transaction.

Now let me move on to investments on Slide 15. Total investment return was GBP95 million in 2020, GBP40 million lower than 2019 and this was due to a combination of lower reinvestment rates and some modest write-downs in our investment portfolio. The net investment income which is just 1.8% in 2020, in line with the guidance we gave at the half year. Looking ahead, reduced reinvestment rates mean we're expecting a net investment income yield of 1.5% in 2021 with minimal gains. If I stand back, the overall quality of our investment portfolio held up well during a challenging environment in 2020 and leaves us well placed as we enter 2021.

Moving on to capital on Slide 19, the main news today is that we are commencing a share buyback to begin to move us back towards the middle of our risk appetite range. I'm proud of our long-term track record for returning capital to shareholders. I'm pleased that we can continue that today with a buyback and an increase in the regular dividend. We see this as a continued vital element of our investment case. The buyback will be for GBP100 million, which GBP50 million is to be bought back in the first half of 2021. And after these distributions and adjusting for both the Tier 2 callable debt in 2022 and the acquisition of the Bromley site, this leaves us with the pro forma capital coverage of 166%.

So let me finish with targets and outlook on Slide 17. As I've gone through, I've tried to put -- there are a number of moving parts especially around the next phase of COVID, how the motor market reacts to this and whiplash and our transition through pricing practices. This will undoubtedly lead to some noise in the system. However, from what we can see today, I'm confident in reiterating all of our existing targets, current year contribution, expense ratio, combined operating ratio, and return on tangible equity. Today's results show continued good performance, strong momentum across multiple parts of our business and additional capital returns for shareholders.

Thank you. And with that, I'll hand back to Penny.

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Penny James {BIO 15157212 <GO>}

Thanks Neil. Now let me start with a slide that I think you all be familiar with. It sets out our vision and strategic objectives which has been a galvanizing force as we've navigated the COVID challenges through 2020. They're about building an insurance company for the future, driven by data and technology, which is fully digitally enabled and can operate in an agile and low-cost way. A company with the customer right at its heart. To get there, this means building a platform that has the technology stack to support increasing cost of demand for digital channels, so customers can have seamless online experiences or choose to deal with our fabulous colleagues. It means getting new products out to market faster than any of our competitors, hence our introduction of multi-skilled agile teams. And it means that our direct brands can increasingly personalized offerings to meet individuals' needs. But it also means that we need to completely innovate to continue to provide exceptional customer service to deliver a best-in-class expertise in counter fraud in card technology and in pricing, and through technology and automation to do this with market-leading efficiency.

Now I believe by delivering on this, we will step change our competitiveness and deliver profitable growth. I want to spend most of today talking about the progress we've made towards our vision therefore and where we're positioned as we look beyond the pandemic. But first of all, I want to try and encapsulate what living up to our vision as a Force for Good has actually meant.

Turning to Slide 20 then, our success as a business is predicated on the success of our customers, our people, our suppliers and our communities. So supporting them through this crisis is critical. And that is why we have actively chosen to invest to support them through the turbulence that 2020 created. Starting with our people. Well, they wanted us to make sure they were safe and secure, making home working as a norm, giving them confidence about their roles as well as offering practical and well-being support. And in return, they went the extra mile to deliver for us. Achieving these results whilst managing the stresses and strains of lockdown life has been nothing short of remarkable. And to say thank you, we're awarding everyone with GBP350 worth of shares. And for those who don't normally receive bonuses this year, we're giving them a bank bonus of GBP400 in their April salary. Investing in your people always pays back. We know that happy people go the extra mile and that's what our customers have needed from us over the last year. And nowhere has this been more crucial than in our travel business.

Hundreds of our people were diverted to the travel team. And together they handled over 26,000 customer claims and repatriated over 900 customers stranded abroad. But we haven't stopped there. We've also made numerous changes to our policies giving over 450,000 customers' additional value through payment deferrals, waive cancellation fees and refunds where people drove less. It's also given the group greater confidence that it can act at speed and provided a spark of new incentives such as mileage money back for Direct Line motor customers. But of course, this pandemic had a huge impact on our communities. So we donated over GBP7 million to charities in the last year to help support some of society's most vulnerable. And we know that our communities will be living with the consequences of COVID for many years to come. So our community fund us back in 2021 to continue the work we started.

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Looking beyond the pandemic though, 2020 has highlighted the importance of playing our part in tackling climate change, improving diversity and inclusion, and levelling up. Bringing all of you to work is the value lived vibrantly across DLG. But after extensive conversations with our people in the wake of the death of George Floyd, we launched a new diversity and inclusion strategy and set ourselves stretching targets around ethnicity and gender in our leadership, so that we are truly inclusive and reflect the customers we serve. But we've also used the opportunity that home working offered us recruit people from areas with high levels of unemployment. Something that we simply could not have done this time last year.

Turning to the planet, we've got a great track record in meeting our targets. Since 2013, we've reduced our energy consumption by a third. We've used 100% renewable electricity for our operations since 2014. We divert a 100% of our office waste from landfill and our accident repair centers by about 97%. We've also delivered a 69% reduction in our Scope 1 and Scope 2 emissions. And as you know last August, we committed to set science-based targets. So we can go further and faster to reduce our emissions by including Scope 3, which covers our investments in supply chain, which we set out in our first climate-related financial disclosure.

We've also become carbon neutral through offsetting whilst aiming to reduce our emissions year-on-year including by reducing the carbon intensity of our bond portfolio by half by 2030 and by creating the most energy efficient repair network in the UK by investing in our estate and repair processes. In honestly, the whole industry needs to step up. It requires cooperation across supply chains and it requires scientific developments, but we intend to lead by example.

So what have we learned from 2020? And what does it tell us about our strategy to be the insurance company of the future? Well first, we've seen a huge shift in the number of customers interacting through digital channels. As you know digitalization is at the heart of our technology transformation. So this trend entirely aligns with our plans. But we now know that customers will adopt the digital options available to those even in more complex areas, so we can really focus on end-to-end digital journeys. Secondly, agility for the month. Our trading and change areas now operate in a fully agile way, making it easier for us to implement change quicker to products and services to fulfill changing customer needs. We can learn a lot from fintech, which is one of the reasons we acquired Brolly last year, to help us develop more flexible, personalized insurance products for digital generation.

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Third, the working model has changed forever. Now Neil has talked in some detail about our property plans. Even pre-pandemic, we were in discussion about how our working environment needed to change to support the cultural shift towards agility to the speaking. The success of home working and our people's appetite to move to a hybrid model is a huge opportunity, not only to save money but also to create more collaborative working.

And finally, car technology continues to evolve rapidly. The move towards electric vehicles is gathering pace. And having the largest insurer owned repair network enables us to develop the technical expertise that we need for the future. We've even built a

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technology training center for our engineers and mechanics during lockdown in preparation for the changes ahead. But in 2020, we also learned more about how the FCA plans to ensure products offer fair value to customers through the publication of its Pricing Practices Report.

I've talked to you about this on many occasions. And now that we've seen the direction of travel, we are confident that the combination of our diversified business model and the actions that we've already taken across the business mean that we're both ready and well placed to win. The growth in our own brand policy counts and the high levels of retention that we've seen in 2020 don't happen by accident. It's because our brands are backed by exemplary customer service and a high quality claims service, which is reflected in our NPS scores. And our transformation is designed to deliver tailored propositions with market-leading efficiency and pricing.

As you've seen, there remain a number of areas that the FCA still needs to clarify before the industry can properly prepare. And as a result, I can't tell you today exactly how the market will respond and where new business and renewal prices will reach their equilibrium in each segment. But we've prepared a range of outcomes. With such a major change, we expect a period of short-term volatility on introduction as the market settles. But in the long run, it should result in lower levels of shopping around so with our strong brand and great customer service, we will be at an advantage.

Now let me turn my attention to how we are transforming the business as we prepare for the new world ahead. So back to a familiar picture on Slide 23. This slide really demonstrates why I'm so proud of the sheer scale of what we've delivered over the last two years. And what we have planned for 2021. And why I believe that you should have confidence in our delivery of the changes ahead. You've heard me talk about 2020 being a critical change delivery year on our path to build the insurance company of the future. Technology and data led, but with the customer at its heart. A company that has real competitive edge and is able to grow profitably. Well, I've been thrilled at our ability to continue to deliver major transformational change even from our homes. We've made significant progress despite the extraordinary challenges, quadrupling the size of the team supporting our travel customers, keeping our repair centers open and productive. Moving the majority of our people to home working and managing the implications of lockdowns across India, South Africa and the UK. Regardless, we've made fundamental progress on both our technology and business transformation.

Over the next few slides, I'm hoping to bring this to life with examples of what we can do today that we couldn't do a year ago and how these changes have begun to drive improved sustainability of earnings and growth.

So I want to start with our Commercial division on Slide 24, because it's the furthest along the transformation journey. Investments in technology and the adoption of agile ways of working has enabled it to expand its product offering and introduce more sophisticated pricing, both of which have helped deliver growth at stronger margins. For instance in 2020 NIG expanded the use of its use its new pricing and underwriting system across more products and step change the quality of its pricing model. And in doing so it's delivered strong top line premium growth and improved current year profitability. It was the only insurer to be awarded five star ratings two years running at software trading house.

And in 2018, Direct Line of business was the first part of the group to adopt agile ways of working to deliver a new digital platform in the micro SME space. In 2020, it continued to expand its product offering, moving its core products of Tradesman and Van onto the new platform. The resulting product of pricing improvements helped lead to van policy count growth of over 9% year-on-year, despite significant reductions in new business shopping in the market in the second quarter. And in terms of innovation for the future, we won contracts with digital on demand mobility providers Drover and, opening up future opportunities in the fleet market. And still small, but the commercial PCW space continue to develop. And for us, that has delivered 62% premium growth in 2020.

Turning then to rescue on Slide 25, Green Flag, and our challenger brand is also well advanced on a transformation agenda as it continued to deliver profitable growth. As Neil said, despite the lockdown, Green Flag has had some of its best ever trading months during 2020. But our vision is bigger than that. It's of a fully digital ecosystem that not only supports customers in the moment of a breakdown, but has the capability to support them in their life cycle as a motorist, meeting their wider mobility needs and expanding horizon of the brand.

So what it is then that Green Flag can do today that it couldn't do 12 months ago. Well, we've moved our claims processes from end-of-life legacy systems to a digitally enabled system. It enables greater efficiency, alongside fantastic customer service and experience, which shows up in our NPS fall increasing for the fourth year in a row. And the refreshed Green Flag Rescue Me app went from strength to strength, delivering an increase in claims journeys completed digitally. While phone fix continues to help our customers fix their cars over the phone, more cost effective for us, quicker for the customer, kinder for the planet.

Looking ahead to the next 12 months, Green Flag plans to launch a new policy and pricing engine that lets it grow beyond offering traditional breakdown services and created customer portal enabling us to look after customers' motoring needs both in and out of an emergency. We're already developing the capabilities of a vehicle repair, service and maintenance. So why do I share all of this? Because I want you to see how a combination of agility and technology can open the way for creativity and growth. Both Commercial and Green Flag evidence that the investments we are making bring tangible benefits.

Now on to home, in home, we focused on business transformation, whilst our technology build focuses initially on motor. And we're already seeing the benefits coming through with good progress in both distribution and claims capabilities. Home expanded its use of digital in claims enabling simple claims initially for jewellery and electrical groups to be processed without the need for a customer call. But just as importantly, 18 months after creating the multi-skilled and agile PCW hub, the impact is now clear. With 30% new business growth in home PCW in 2020.

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Now we've talked before about our plan for increasingly personalized propositions for Direct Line customers, tailoring the proposition for the individual using modular products a little as we go in DLC. As I mentioned earlier, Brolly is helping us to step change our product development capabilities and we're currently testing three new products: Jewellery, watch and cycles cover. Our home partnership team continue to focus on expanding our reach and leveraging our capabilities. We agreed at new two-year deal with NatWest and launched new API capabilities to enable potential partners to test straight through indicative innnovative home quotes using their data, a step towards the future in a world of open finance. Of course, the key focus for 2021 is preparing to win in a post for FCA pricing practices world. But alongside that, we will continue towards greater digitalization of customer journeys and developing further products to build the components of our DL offering.

Finally, we turn to motor. With the replacement of the M2M technology stack, the most extensive as well, of our transformations is well under way. It's intended to make us more competitive through improving cost efficiency and pricing effectiveness. Now last year, we took a cautious approach to roll out of homework embedded in, so it's really exciting that we are now in the final roll out of functionality across our brands. With privileged motor renewals going live on the new platform during 2020, letting us test the platform at scale and Churchill new business policies are beginning to be written live on the platform with Direct Line due to follow in the coming weeks.

So what are the capabilities all of our brands will have once they're rolled out? Well, it means customers can switch seamlessly between channels. The systems unlock greater operational efficiency by automating the majority of back office processes. We now offer tiered products on all channels with an enhanced multi-car proposition. It provides greater pricing sophistication, so we can deploy pricing changes much faster. It allows us to add or change products with ease and it facilitates customer self-service for both claims and service. We've been busy in claims too. We've expanded the use of automated online processes to book in vehicles, drive total loss decisions and facilitate parts ordering, all reducing the overall length of time to repair, cheaper for us and a better experience for the customer.

But sadly an insurer's success also relies on its ability to detect fraud. And in 2020, we launched our new market-leading counter fraud platform, enhancing our ability to both reduce indemnity costs and write better quality business in the first place. So how do we plan to build on all of this in 2021? While we continue the rollout of our platform across Churchill and Direct Line, whilst transforming ourselves in pricing and data in parallel to take advantage of the tools that we have built. And as we do so we will turn technology transformation into improved competitiveness, driving growth and improving the sustainability of our earnings.

And Darwin, our in-house machine learning brand built for the PCW market, well, it continues to test learn and adapt and has grown to over 50,000 policies in the 18 months since its launch, really great progress and we expect it to continue to build its book. So another busy year for motor, mostly behind the scenes and we expect to start seeing the benefits of all this investment flow through later this year.

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So if we take a step back from all the detail, what does this tell us about the future of the group? Well, above all notwithstanding the challenges of 2020. It tells us this business has real momentum in three main ways: driving the benefits and growth out of the investments we have already made, landing the big technology deliveries and making down payments on the future changing nature of the economy and society.

As I've said to you in previous presentations, we really do start from a position of strength. We have strong brands, rich data and leading claim skills. They are hard to replicate and we believe deliver real long-term value. We have a range of products and distribution channels that give us real diversification and scale that most of our UK-focused peers simply do not have. And we're proudly a people business, which means we really care and have a passion to serve our customers. But we're all about building on these strengths and improving our capability so in the future, we are a fully digitally enabled business which provides excellent customer service at market-leading efficiency, however and wherever our customers choose to interact with us; a technology-driven business that can offer unique customer products and propositions through Direct Line and Green Flag quickly and at low cost; a data-driven business that can leverage the wealth of its own and its partner's data to drive better risk selection and deliver more tailored customer products; an agile and lower-cost business that can quickly reorientate itself to focus on the areas of highest value. We believe these labor foundations for the increasing the sustainability of earnings and for driving future growth.

We're far from finished, but we're already seeing the effects of the technology business and data transformation emerge. And we're a business that is proud to challenge itself to both be a Force for Good and to deliver strong returns for its shareholders. Extraordinary circumstances of 2020 created a real sense of togetherness, pride in the business and determination to succeed and I have 11,000 people to thank for that.

I've always believed in the potential of this business. And the last 12 months to reinforced my belief that if we can achieve results like this while facing the seismic shift that COVID has created then we can take that momentum and accelerate our strategy to be the tech- and data-driven insurance company of the future.

I really look forward to sharing more of our progress later with you -- later in the year with you, hopefully this time in-person.

Thank you for listening. Both myself and Neil are really happy to answer any questions that you have. And I'm going to hand over to Jess who's going to facilitate the Q&A for us. Thank you.

Questions And Answers

Operator

(Question And Answer)

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Thank you. (Operator Instruction) We are aware that those joining the call will be following the presentation in real-time, whereas viewers on the webcast will be watching with a short time delay of between 5 to 15 seconds, so we'll leave extra time to allow you to join. (Operator Instructions) The first question comes from the line of Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning, Penny, Neil and team, I hope everyone's well. Please pass our best on to Tim. We hope everything is going as best as it can for him. I got two questions from my side. The first one on reserve releases. I guess in the second half they were lower than what we might consider to be normal, even though with the level reducing over time. Could you maybe talk through what they read across from this is for the next couple of years? Should we expect far low reserve releases? Or is there now the potential to be more as you built up some prudence in the second half of 2020?

And the second question is, have you seen any meaningful frequency benefits year-to-date in 2021. Perhaps you could give some color on what this looks like versus what we saw in Q4. Thank you.

A - Penny James {BIO 15157212 <GO>}

Thanks, Kamran, and thanks for the kind thoughts. We'll pass them on to Tim. Do you want to start with reserving PYD?

A - Neil Manser {BIO 5571223 <GO>}

Yes. Hi, Kamran, let me do reserving oven for you. So the first thing says, I think it's always best to look at the whole year rather than any half period, because you do get variation between the halves. So always -- I think, always, the first thing is just look at the full year. If I take the full year, I think it's come down versus last year which is trajectory we've been expecting. The reinsurance impact of the greater reinsurance program is now pretty much -- is now working through the system. We set that up in 2014. So I think it's fair to say that last year or 2020 as a whole, is kind of a low-watermark and where we'd expect reserve releases to be for the book. And actually, as we look forward, reserve strength is good at year end and I actually expect there to be some -- potentially some positive upside to the level in 2020.

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A - Penny James {BIO 15157212 <GO>}

Thanks, Neil. Frequency in 2021, so yes, clearly with the lockdown we're seeing reduced levels of frequency in January and February. Not the same level as we did in the first lockdown last year, but definitely seeing some reduction. I think in terms of what that means for the year, probably too early to tell for the year overall and as much as there's lots of factors that will play out as we look forward, and certainly, as we're are looking at pricing across the year, we're taking into account both what we think long-term driving habits will be and what our views are on those, and some severity pressures that we're seeing in the market around reinsurance levies and some temporary effects that we've seen in accidental damage areas, which mainly links to COVID-related practices. But when we look at all of that and around, we're reiterating the 93% to 95%, and really, that -- the

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message there is that we expect to sort of carve through a middle course through all of that and stick to those long-term trends.

Let's go to our next question, Jess.

Operator

Yes. The next question comes from the line of Freya Kong from Bank of America. Please go ahead.

Q - Freya Kong {BIO 20097488 <GO>}

Hi, good morning. Hi, Penny. Hi, Neil. On reinsurance, you've made a slight change to the program. So you're now retaining a bit more risk on the motor excess of loss book. Does this affect your outlook for the attritional loss ratio in PYD and potentially capital requirements as well?

And second question is pricing room seemed a little weak despite good policyholder growth? Is this general competition that you're seeing in the market? Or is everyone pushing through lower renewal prices?

A - Penny James {BIO 15157212 <GO>}

Brilliant, why don't you take the first one, Neil, and I'll take Home.

A - Neil Manser {BIO 5571223 <GO>}

I'll take first?

A - Penny James {BIO 15157212 <GO>}

Yes.

A - Neil Manser {BIO 5571223 <GO>}

Okay. Thanks for that. So on the reinsurance one, so yes, we have taken a bit more risk in 2021. If I stand back, why we're doing that? Well reinsurance pricing had been going up for a number of years now particularly post the Ogden rolling couple of years ago. So we saw a step change in reinsurance pricing up. And as we look at the program now we think there's actually more value in retaining additional risk. Clearly, it's a risk attaching program, so already half earned through this year or half earned through next year. So I think it's quite a long time before we see any impact on PYD, given the current year earnings to start with.

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As I said in the presentation, in most years, we expect to see a better result because of this program. And by that, I mean a modest improvement to the attritional loss ratio, clearly in years where there's a very heavy BI claims frequency, it will be -- it might be a slight negative. But in most years we'd expect a small positive. In terms of capital, which was -- like, was the last part of the question, the impact is not material in the short-term.

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I'd say low tens of millions by the end of this year, and we expect additional capital coming through. But in the context the capital base is not a material movement.

A - Penny James {BIO 15157212 <GO>}

Home, yes, we've seen pricing come off little bit. We've seen risk come off a lot a bit in home, but only quite minor and some of that is effects of did make some renewal adjustments as we went through Q2, partly for operational reasons, partly for customer reasons. And of course, we've continued to make conduct changes as we've talked about many times with you, we continue to tighten those rates. Both of those have had a little bit of effect on the pricing overall.

I think the bigger effects really in home and driving the growth is what we're really seeing is the strength of delivery on the price comparison side as we put real focus on to it. And the nature of the product there has got sort of slightly lower average premium overall. So the bigger effects tend to be in average premium rather than sort of pricing pound to pound, if you like. But yes, all pretty muted effects, I think in the home market. Jess?

The next question?

Operator

Your next question comes from the line of Jon Denham from Morgan Stanley. Please go ahead.

Q - Jon Denham {BIO 19972914 <GO>}

Hi, Penny. Hi, Neil. Thanks so much for taking the questions. You said that the property site strategy is incremental to your cost target. Is there also upside from increased consumer willingness to interact digitally? And secondly, you said you're growing very strongly in home on PCWs. I think you just said it's lower average premium, but how do the margins between PCW, Direct and Partnerships compare? Thanks.

A - Penny James {BIO 15157212 <GO>}

Do you want to take the cost?

A - Neil Manser {BIO 5571223 <GO>}

Should I -- cost?

A - Penny James {BIO 15157212 <GO>}

Yes.?

A - Neil Manser {BIO 5571223 <GO>}

So I'll take costs, John. So yes, as we look out, I think that we're increasingly confident of hitting the 20% expense target in 2023. The property is incremental. To that which is about GBP10 million, maybe slightly more? I think that there are a few -- a few reasons why

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we're confident. We talked a bit about this. I think we've done the heavy lifting on the tech change. So that's un-locker of costs. I think you're right. I think digitalization agenda does help. And we're putting in -- we've put in place -- you've seen much more digital journeys, we put in place last year, with customers are very supportive of. So yes, it's a modest tailwind to costs. I think -- as you said, and on top of that, I think our focus on agility is also really important here. So it's not just kind of run -- cost -- there are all sorts of cost of change. So actually, new technology stack is far -- cheaper to the change, and that plays into the longer term cost agenda. So -- and I'd say increasingly confident that we can meet those -- that 20% expense ratio target in 2023.

A - Penny James {BIO 15157212 <GO>}

Brilliant. And on Home, so yes. So the margins -- as we've always said, the margins on our direct book are the strongest across the organization, and that's true in Home as well as other products. That said, the margins that we're writing on the PCW business are ahead of our target returns, so we're really, really comfortable with putting that business onto the book. And it's not coming at the expense of reductions in the direct book. The direct book is still growing itself as well. So yes, slightly lower margins than on direct. So retention is still very high on direct and we're still seeing same growth there as well.

Operator

The next question comes from the line of Thomas Bateman from Berenberg. Please go ahead.

A - Penny James {BIO 15157212 <GO>}

Hi.

Q - Thomas Bateman {BIO 21707516 <GO>}

Hi. Good morning, both. I hope you're doing well. Just on the FCA implementation, say four months after the Q2 statement now. I guess given all the change that's going on in the business and the pricing model changes that you've got, how confident are you that you'll be up-to-date in time for that change?

And linked to that, you, obviously, reiterated all your targets. That must have been done in consideration of what you think the impacts of the FCA review is going to be. Secondly, just on pricing. I guess, you heard from after the year that you could have been quite aggressive in H2. Can you talk about DRG's approach to pricing, particularly in the second half of the year and your expectations for 2021? Thank you.

A - Penny James {BIO 15157212 <GO>}

Sure, well, let's do the FCA first. The first and sort of overwhelming comment is yes, of course, when we reiterate the 93% to 95%. We're looking at how we believe we will trade through the FCA pricing practices changes when we make that statement as well. There's clearly lots of uncertainty out there about how the market will react to different points, but we've scenario-tested, lots of different versions of that, and we still conclude that we're comfortable with the 93%, 95% reiteration. So that's sort of the first point.

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In terms of preparedness, so we have a team set up with some of our best people in, as you would imagine, squarely focused on delivering pricing practices change. And some of that is in terms of what are the practical things that you need to do to change systems, models, and communications and so on to be ready. And some of that work is about one of closed trading strategies that you will take in particular segments and particular areas of the business and were gaming different scenarios. So all of that work is ongoing. And as I say, the team is in place and kind of well advanced in what it's doing.

I do think that the timelines are too short. I think the entire industry was set back to the FCA that it believes the timelines are inappropriately short, put unnecessary degrees of risk into the market, and not all players have the same level of resources at disposal exposal to address things. So we're kind of really confident on our preparation and our plans and our progress. But we would still allow the FCA to take a little longer to make sure it gets a safe landing across the market.

I think on pricing, okay. So what's been our approach? I mean, the first thing to say is that we always take a sort of long-term view of the structural input costs, if you like, when we're pricing. So we're always trying to look out ahead. When you look over 2020, what actually happened, well, overall we put just under 2% through on rates across the year. So not quite what claims inflation is doing, but still some upwards movement in pricing. Most of that was probably in the earlier part of the year, a little less in the latter part as it became clear that longer lower driving levels were likely to perpetuate for further out. So we did put some rate changes through right towards the latter end of the year and take a little bit out, but always looking towards what we think long-term frequency rates will be and long-term structural claims inflation rates will be. I can't speak for what Admiral or anybody else in the market has chosen to do in the way that they price, but that is our approach and that remains our approach.

So as we go through 2021, what you'll see us do is, unlike normal circumstances where you can look to historic data, we and everyone else will have to make assumptions about what we believe future driving levels will do. And so you'll see us kind of I think adjusting rates as we assess those views and more data points become clear. But that's the way we focus on it. We always look to the long-term structural trends and that's what's driving our pricing at the moment. Jess?

Operator

The next question comes from the line of Ivan Bokhmat from Barclays. Please go ahead.

A - Penny James {BIO 15157212 <GO>}

Hi, Ivan.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi. Good morning, good afternoon. I've got two questions, please. The first one will be on growth. Clearly, a few things you've highlighted would mean to -- would lead to some lower average premium over time, like the mix shift. And I think we saw some of that effect already in 2020. And then obviously, I think overall market pricing has also been

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down, at least in motor and home in 2020, and that will earn through. And finally, there's the FCA impact which we don't know.

So it's fair to assume that the average premium might be heading downward a bit, and correct me if I'm wrong. Against that, you obviously have the ability to take market share. And I think you have done that successfully in motor already. So I'm just wondering if you could give a little bit of an outlook of how you think your top line is going to be developing this year and next.

And the second question is just on COVID. You had a very helpful table in your first half statement showing your net impact of COVID for the business. Would you be able to give something similar for the full year, please? And perhaps we can then, from that draw some conclusions on how the first half impact would be. Thank you.

A - Penny James {BIO 15157212 <GO>}

I'll share the COVID one to you at a moment, Neil. So pricing and effects on average premium, I think there are lots of complexities in it, Ivan. So if we look at what shifted average premium's focused initially on motor, there are some facts in there that will unwind moving forward, so it's really driven by reduced numbers of new drivers in the market, reduced levels of new vehicle sales reduced levels of mid-term amendments adding drivers and so on so forth, all of which tend to drive average premium up. And so as we've gone through 2020, we've seen that shrink. You'd expect to see that kind of features reverse as we come back into a more normal world.

There are various elements of the input cost that you would expect to put some inflationary pressures back into the market over time and have potentially an impact on average premium. Those include levy costs reinsurance costs across the market. And actually some of the severity features, so we've seen severity on damage running ahead of our usual inflation levels. Some of those factors I think will reverse relatively swiftly. Others are probably longer term features around the market. So some of the COVID social distancing cleaning factors may well remain for some time, whereas others, I don't know total losses are more expensive at the moment due to the second-hand car market.

We're not clear how that will develop over time. So there were some inflationary pressures that we expect to come in. Then you've got Whiplash coming in that will probably counter some of that, depending on how successful it is on introduction. And FCA over time, I don't think it's clear that it would necessarily reduce average premium, but over time probably reduces shopping around.

If I cut through all of that, what we are trying to do is make ourselves more competitive and be able to take market share because of that. And so as those activities come on stream and the motor systems rollout and we can apply that across the whole of the books, and so on and so forth, then we would hope to see that competitiveness increase that gives us more traction within the market. Which is why I say that they should support longer term growth?

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So we've clearly got a period of transition as a lot of these COVID effects are the steady and reverse out. And it becomes clear most importantly what actual driving level is the new norm. Is it 100% of what it was two years ago, is it 95%, 90%. So we make the answer to that, I think knowing what the exact size of the market is uncertain. But I come back to the fact that the more competitive we make ourselves, the better capability we give ourselves, the much stronger chance we have to take motor share.

I think when you look across other product lines, you could already see those effects happening in commercial. And the growth we're seeing there is real IFP growth in addition to some of the market rate movements that you're seeing in the commercial market as well. So you're getting growth rates and volume growth there. We're seen growth in Green Flag and include demonstrating, we can grow in Home as well. So I think there are plenty of opportunities for growth, but we've got a period of transition to navigate over the next 12 months or so. Neil, COVID.

A - Neil Manser {BIO 5571223 <GO>}

Okay. Thanks, Ivan. Let me try to pick this one up. So, I think, the first thing to say is, it's becoming increasingly difficult to unpick the COVID factors. I mean, I think you appreciate that at the half-year, your three months over the COVID period and now we've got nine months. And take for example motor premium trying to work out how much of the motor premium changes are due to COVID and non-COVID factors, is very difficult.

Having said that, you will see that we made a statement in the prelim that we anticipated COVID to have been a net modest impact. And it is relatively modest in the context of the Group profit. If I kind of help you piece some of the bits together, we talked a bit about motor frequency and how much of that we thought was COVID-related and non-COVID-related. Clearly we said that we spent -- invested GBP93 million in force of good initiatives. You can broadly see the impact on the travel result and obviously, it's bits and bobs elsewhere, around BI claims, investments and instalment income. So if you add all that together, it's a small modest positive. But as said, increasingly hard to allocate what's COVID and what's not COVID.

A - Penny James {BIO 15157212 <GO>}

Jess, have we got more questions?

Operator

Next question comes from the line of Faizan Lakhani from HSBC. Please go ahead.

A - Penny James {BIO 15157212 <GO>}

Hi.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Hi, good morning, all.

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A - Penny James {BIO 15157212 <GO>}

Good morning.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Thank you for taking my questions. Just firstly on the Solvency II. I see the operational capital generation is actually very, very strong and well above IFRS earnings. I know there's a similar trend at half year, but I was expecting it to sort of start to normalize sort of equal that. Can you explain what's driving then how we should think about that going forward?

My next question is on PYD. I know we've discussed this already, but in home, which probably don't see the same sort of impact on excess of loss, it was fair bit lower than the five-year average. Can you explain why that is and how we should be thinking about going forward? Thank you.

A - Penny James {BIO 15157212 <GO>}

Can you take those?

A - Neil Manser {BIO 5571223 <GO>}

Yes, let me take both of those. So let me start with capital generation. Yes, you're right, strong this year. You'll know there's a few factors you need to adjust for when you compare the IFRS profit to capture and so you need to add back amortization and investment gains/losses as well. So we do those adjustments. It is still relatively strong. And the other factor that's very hard to predict is the difference in valuation basis between the Solvency II technical revisions and the IFRS reserves. This year, it's been a more positive or -- sorry, I should say, in 2020, it was a small positive. Over time, you'd expect that to be pretty neutral, small positive last year, it's hard to forget would it be this year. But ordinarily, you would expect the capital generation to be very close to the IFRS profit adjusted for amortization and investment gains/losses.

On to the PYD in Home, so you're right, it was a bit lower in 2020 than the previous year. We said that the 2019 PYD was higher than normal. I'd say probably this year looks a bit lower than normal. I wouldn't read too much into that. I think it's a kind of long-term run rate, the P within in Home is somewhere between the '19 and '20 levels.

A - Penny James {BIO 15157212 <GO>}

Jess, have we got another question?

Operator

Next question comes from the line of Ming Zhu from Panmure Gordon. Please go ahead.

A - Penny James {BIO 15157212 <GO>}

Hi, Ming.

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Q - Ming Zhu {BIO 17001429 <GO>}

Hi. Good afternoon. I have a question on your capital, please. I think previously you've always said you hold the capital for Brexit. And -- but now if I look at your 166% after a bond lease side, I mean, are you comfortable with the Brexit outcome now? Or that is still something you are holding back on? So I'm just trying to get a sense when that 166% and moving forward. And also -- sorry, also just like to follow-up on that one is you've announced GBP100 million buyback. Does that mean special is completely out of the way for this year?

A - Penny James {BIO 15157212 <GO>}

Thanks. Neil, do you want to take capital?

A - Neil Manser {BIO 5571223 <GO>}

Yes. Let me try and take that. So the 166% in Brexit. So although we've talked about Brexit generally, the biggest risk we face is actually -- it would have been impact of Brexit on credit spreads around Brexit itself. So it's the credit spread's exposure that's generally been the reason why we've held back slightly to the 170.

Look, with is it on a pro-forma basis, 166%, the intent is we're moving back down towards the middle of the range. So we've taken a good step forward this year. And I think as uncertainty unwinds, the macro uncertainty unwinds, we would expect to take further steps as and when you see that fit. In terms of special versus buyback, if I got the question right, at the moment, we think buybacks is a good way forward. Then the dividend yield is still relatively high so at where the yields are today, where the shares are trading. We think, although economically, it doesn't make a huge difference, buybacks is the best route through returning capital today.

A - Penny James {BIO 15157212 <GO>}

Thanks. Jess, have we got another question?

Operator

Yes. So the next question comes from the line of Youdish Chicooree from Autonomous Research. Please go ahead.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Hi. Good afternoon, everyone.

A - Penny James {BIO 15157212 <GO>}

Hi.

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Q - Youdish Chicooree {BIO 17430923 <GO>}

Hi, good afternoon. Thank you for taking my questions. My first question is on motor pricing. I mean, in your opening comments, you said the deflationary pressures in industry pricing release, but you also indicated you will price in line with your long-term structural view. I mean, this suggests to me you're prepared to sacrifice volumes presumably to deliver further improvements in your current tier loss ratio. Is that -- am I reading your statement correctly? That's my first question. And then secondly on your expense ratio. I'm wondering I mean, what I mean can you deliver on that 20% in 2023, if top line doesn't progress much from here? Those are my two questions. Thank you.

A - Penny James {BIO 15157212 <GO>}

Okay. I'll take the first one on pricing and I'll pass the expense ratio one to Neil. So pricing, so look, we have always said that we will focus on the value and the appropriateness of our underwriting margins as a matter of philosophy if you like. And to that extent, looking at the long-term rate for 12 months out if you like of what inflation is doing and the input costs are doing is a core part of how we think about our pricing. So to that extent, your comment is right. We'll prioritize underwriting discipline over volume grabs, if you like, that undermine that.

Now in this environment that requires more judgments than it does usually. Insurance is all about assessing what your cost of sales will be before you know it. And in this environment, looking ahead of those long-term trends is a more complex piece and more judgmental piece even than it is normally. So we are, all the time, reassessing that of what the right place to strike that is as we look out across 12 months. But yes, we focus on what we think the overall inflation and input cost trends were. It will be above this, across that time of our premium way through pricing.

A - Neil Manser {BIO 5571223 <GO>}

So on expense, thank you for the question, so baked into our projection is a very modest level of growth to achieve that 20% expense ratio. I guess the answer is if we don't achieve that, we work harder.

A - Penny James {BIO 15157212 <GO>}

Jess?

Operator

The next question comes from the line of Will Hardcastle from UBS. Please go ahead.

A - Penny James {BIO 15157212 <GO>}

Hi, Will.

Q - Will Hardcastle {BIO 16346311 <GO>}

Good afternoon, Penny and Neil. You've discussed now that you can read products quicker with the other technology capability. Is there any way in getting some quantification around this? How quickly can you reprice, adapt changes on to the website? And perhaps do you now consider yourselves to be market-leading or which quartile of the industry?

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And the second question is on investment yield. That 1.5% yield guidance for '21. Just trying to -- it's a pretty precise question, but when was it struck? Is this as with rates at year-end, or is this as of current levels? Thanks.

A - Penny James {BIO 15157212 <GO>}

Thanks, Will. I'm going to leave Neil to the precision questions on investments. So what do we think we can do in terms of pricing pace and where does it put us in the market? So, I mean, right now I think anyone who was able to come to Doncaster, when Gus did a pretty detailed presentation on where pricing was at and what we were trying to achieve with it; we were pretty clear then that comp links rate changes, not simple, I'm going to put 1% across the portfolio, but complex and segmental rate changes can take us a number of weeks to do on occasion on the current system. And we also have to kind of translate between different languages to get it live into the system. And that combination of things dilute to effectiveness of the pricing en route, if you like, but also takes much longer than some of our pay grade, who we believe, can make it certainly overnight and maybe even in today changes.

So the capability that we are putting in takes us to the point that we can do those kinds of changes at the same kind of pace. So certainly overnight type changes, and we are taking weeks out of those translation processes. So it's a very, very material shift in capability. The thing that is happening alongside that is that we obviously need to re-engineer all of our pricing processes internally to be able to deal with that, if you like, if you've got a process that normally takes six weeks and it's capable of for taking a day or two, then you needs to re-gear into that. So there's quite a lot of transformation going alongside that to facilitator using it. And obviously, the further we get through the brands and rollout of the book, then that capability comes on stream at that point.

And where does it take us in terms of quartile? We believe, that it will give us the capability that matches the leaders in the industry. And there are lots of different facts that determine who's most effective at pricing in any one component in anyone area. But it gives us the tool set that puts us amongst the leaders.

A - Neil Manser {BIO 5571223 <GO>}

Sorry, Will. And on investment return this year. So it -- struck this year, I can't give you a precise date when we struck it, since we struck, it though, I don't think there's been anything moving in the market particularly to change. I mean credit, is pretty stable since year-end.

A - Penny James {BIO 15157212 <GO>}

Jess, we got any more questions?

Operator

The next question comes from the line of Andreas van Embden from Peel Hunt. Please go ahead.

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A - Penny James {BIO 15157212 <GO>}

Good afternoon, Andreas.

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

Hello. Good afternoon. Thank you very much for taking my questions. I've got two questions on the motor book if I may, please. The first one is on retention rates. I remember, earlier in the year when we had the first wave, retention rates increased pretty much across the motor industry. Could you maybe discuss how retention rates developed in the second half of the year, how you're managing retentions going into 2021 and how sticky you think retention rates will be through the year given all the volatility with Whiplash reform? And obviously the FCA pricing review, what are you doing to keep retention rates up?

And the second question is actually on Slide number 8, where you sort of carve out the estimated COVID-19 impact of 12.5 percentage points on your attritional loss ratio in the motor book. I just want to double check, is that a net number, i.e., this frequency plus sort of minus severity and the sort of customer relief measures you have taken, is that all included in there? And if so what would be the pure frequency benefit in that number? Thank you very much.

A - Penny James {BIO 15157212 <GO>}

So let me take the question, and I'll pass COVID to Neil in a second or CY to Neil in a second. So retention, you're right that I think we flagged probably at half year that retention had been really strong through the sort of through Q2. I think it's been a feature of all of the lockdowns that new business shopping has dropped in the market and the heat is in the heart of those kind of pure lockdowns. It came up again became through the summer and into the autumn and then dropped off again as we went into sort of the lockdown in November sort of time and it sort of stayed down.

And the corollary of that is the retention across the market I think, has been pretty buoyant. So actually throughout the year, retention has remained strong. And remained at or above the levels that we target and are comfortable with and that's been a feature of the market. So that looks good and that looks -- I think that's the case, really, across all products, but motor in particular. I think as we look forward, there are lots of things that will create some volatility in the market or there are several things. I think the thing that will create most volatility in the market is the -- as we move into pricing practices, you'll see renewal rates and new business rates moving around quite a lot, probably inconsistently across segments. Maybe across distribution channels you'll see different things happening. And so at that point, you could see some different features.

And one of the exercises as you prepare for pricing practices is to work out exactly where you want those balances to be. So we strike the right place as we move into the market. And I think as pricing practices comes in, again, you'll see a period where people kind of maneuver around as the market finds its equilibrium, because on day one nobody will know where everyone else going to play, so there'll be a period I think of adjustment there. But in short, retention rate has been very strong. We always focus on them and

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customer service remains a key driver of retention rates and so NPS score's highly correlated to retention rates. Neil?

A - Neil Manser {BIO 5571223 <GO>}

Hi, Andreas, so on the frequency question on Slide 8. So yes, you're right. The 12.5% points you've estimated is a COVID impact is both frequency and offset by severity effectively, so you're spot on in saying a pure frequency number would be slightly higher, so greater than 12.5%. I don't have that on me. But it would -- it'd be I think, slightly higher, not materially higher than that.

A - Penny James {BIO 15157212 <GO>}

Jess, next question.

Operator

Yes. The last question comes from the line of Oliver Steel from Deutsche Bank. Please go ahead.

A - Penny James {BIO 15157212 <GO>}

Good afternoon, Oliver.

Q - Oliver Steel {BIO 6068696 <GO>}

Hi, Penny. Hi, Neil. Just one question, which is I'm just wondering about any sort of guidance for payout ratios in terms of normal dividends, ordinary dividend going forward? Because I think I remember a few years ago you actually raised the payout ratio. But if I look back over the last few years, it's gone from around about a 50% payout ratio to around about whatever it is, upper 80s in the last 12 months. And historically, you've paid specials or buybacks on top. But I'm thinking that the capacity to keep on doing that year after year is -- becomes more limited. So I mean bearing in mind that you sort of tried to raise the ordinary dividend by about 2% per annum, is that a sustainable number? Do you have a figure for ordinary payout ratio?

A - Neil Manser {BIO 5571223 <GO>}

So thanks for the question. As we look at this, I think the key is that it's a progressive dividend policy. As you rightly said, a few years ago we rebased it. We had a lower regular, but a high-growth rate. We rebased it so it's a higher payout ratio and the long-term growth rate is in line with business growth, which was a couple percent. I think we're confident where the sustainability of that dividend is.

A - Penny James {BIO 15157212 <GO>}

Thank you. Exactly. Okay, yes. Any more questions come in? Or is that the last one?

Operator

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There are no further questions in the queue.

A - Penny James {BIO 15157212 <GO>}

In which case I would say, thank you to everybody for your time, for your questions and your thoughts. I so look forward to doing the next one with you in the room so that we can see your faces rather than cameras. But in the meantime, keep safe and thank you.

Operator

Thank you for joining today's call. You may now disconnect your lines.

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