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S1 2021 Earnings Call

Company Participants

- Costantino Moretti, Head, International Insurance
- Cristina Nestares, Chief Executive Officer
- Geraint Jones, Chief Financial Officer
- Marisja Kocznur, Head of Investor Relations
- Milena Mondini de Focatiis, Chief Executive Officer

Other Participants

- Faizan Lakhani
- Freya Kong, Analyst
- James Shuck, Analyst
- Nick Johnson, Analyst
- Risha Singh
- Thomas Bateman, Analyst
- Will Hardcastle, Analyst

Presentation

Milena Mondini de Focatiis {BIO 18674746 <GO>}

Welcome, everybody, to Admiral's Half Year Results 2021. Unfortunately, we are virtual again. I'm Milena Mondini, Group CEO, and I will start today with a reminder of our strategy, which remains unchanged and some reflection on our strong first half result.

I'm here today with Geraint Jones, Group CFO, will talk to us about the financial result; Cristina Nestares, CEO of UK Insurance, will give us more detail on how you create business with the key driver of this outcome; Costantino Moretti, Head of International, will talk about the continued evolution of our overseas business. I will then come back to share with you how our Loans business is back to growth anchored on solid foundations, and conclude with our ambition for the longer-term sustainability of our business and the larger community.

The key messages from us today are another set of strong results with profit up 76% driven by a combination of high reserve releases on the back years with higher level of profit commissions and no claims frequency as people drove less with COVID restrictions. In addition, we will issue a record dividend of 161p per share that includes a first part of Penguin Portals sales proceeds. We are very pleased with this performance but there are some exceptional elements in it and we don't expect replicated in the second half.

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While operating in very competitive market, we also delivered double-digit growth in our customer base both in UK and overseas. Finally, we made further progress against our strategy. We continue to strengthen our competence and infrastructure around the [ph]emerging technology and improved customer experience, and we made further progress and further steps in product diversification. More in general despite the change and COVID disruption, we remained very focused on strong execution on data and on customers.

The strategy we presented in March remains unchanged. In a world of fast acceleration, more demanding customers, new possibility unlocked by advanced data and technology, our aim is to build on our strengths and on our relationship with customers would further diversify our product offering while delivering on customer expectations faster and you will hear more about progress in these (inaudible) later today and year ahead. One thing is the disruption to the business as in recent months. This strategy is important, but not as much as good execution. And what really matters are the tactics and how you navigate in this continued risk. So we will take few minutes today to mention a few example of good rational execution both in bringing forward some of our strategic priorities and also running the business as usual. Possibly, the most notable example is how we navigate the cycle. As Cristina will show you later, we decreased price ahead of the market reflecting lower frequency and once again increased price ahead of the markets as flames started to inflate. And this helped us to deliver good growth and protect margin when it was more rationale to do so.

And this underwriting agility has been very typical of our management in the past. It was good to see a similar story in Loans but we were faster than other in reacting to the pandemic with good (inaudible) adjustments within our footprint and in our underwriting processes. And this resulted in some of the best loss outcome in the market. Risk selection remains our obsession and similarly, the mindset was transfer loans as well, but we are adopting open banking data to improve underwriting and assess better customers for affordability that is another win-win for the customer for us. But we're also very conscious of the necessity to continue to improve operational efficiency and increased speed of service. I will make progress, for example, by tripling total loss claims settled online almost (inaudible) the time set on those and decreasing the variable cost of customer service mainly through a non-digital functionalities. It's also rewarding to see how some of the new best practice are now being piloted in our oversea business. As for example, scale agile in Italy, where we doubled the number of features released and reduced by more than 40% passports release and days of cycle.

Moving beyond existing business in Admiral Pioneer, our new venture arm, we launched the first pilot venture in less than six months each. One is tool box providing coverage for tools for small business in the UK. And this is a small first step in the micro SME space, but we see some potential for better services with the customer. And the other one is Kooalys, a small fleet insurance business in France. Interesting as this focus merely on small, smart and green in the future rental fleets. They are both small trial, not expecting to make any different on results this year and not in the next two or three. So I'm referring them here both as they could make a difference in the longer term and importantly as they help us to test the woods for Pioneer and somehow get comfort on our ability to launch new business in such a short time.

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Solid execution and responsiveness to market conditions are two long-lasting features of Admiral's history and they will continue to be particularly relevant in the current and next future context. We are all keen to go back to normality but, fortunately, we are not there yet.

There are still relevant change in our way starting with the long tail of COVID that continue to surprise us with further ways and become our job that is predicting risk as difficult as ever. The FCA pricing reform that will force strong rebalance between new business and renewal prices and inevitably will cause some price shocks and dislocation of portfolios.

We have prepared for this change and Cristina will talk more about this later but, overall, this will require from the market a mix of underwriting discipline, ability to read context and consumer reaction very fast and more complex rating. Another element that the market will need to manage will be the evolution in the way we work, how embed the hybrid working but also agile practices in the operating models.

To adapt effectively to this change I believe that a strong underlying culture on corporate identity are key assets. At the core of our execution, it's not like two or three superstar tracking better or faster decision. It's our people and our culture, and our culture remains strong. We are among the best place to work worldwide. It's fun because this is -- the engagement score very high and our staff we feel looked after. And it is a simple as that. People would like to work in Admiral and that's why they gave their best, and we aim for this to be true for everybody. No one excluded. So when people talk about diversity and inclusion, there is a lot of focus on representation of diversity. For us, historically, it has been entirely on inclusion and inclusion naturally resulted in diversity.

When I joined Admiral, Cristina and myself were two out of four International CEO and there of us were women. And this was 15 years ago. Now we have 50-50 gender balance in the Executive Committee and in the Group Board. We don't rest on our laurels. We're very conscious. We continue to evolve and we've been very focused on increasing talent in some critical areas. We also decided to fully embrace smart working. Admiral staff who love the choice to work from home part of their time and when the office, they will find space that will be redesigned to foster more collaboration and innovation. As in the end, going through the transformation the glue that keeps everything together is the team spirit and the willingness to work together.

And with that, let me hand over my teammate our CFO, Geraint Jones.

Geraint Jones {BIO 19738535 <GO>}

Thanks, Milena. Hello, everyone. I'm going to talk about some of the main features from a very positive first half and look at how the top-line has grown, what's contributed to the significant increase in profit and to finish, I'll go through the solvency position and cover the interim dividend or dividends.

To start with the highlights with plenty of green on show here, Profit and earnings per share were both up very strongly. The pre-tax result was up by three quarters and was in

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the middle of the range we pre-announced a few weeks back. Earnings per share was up by two-thirds, very decent top-line figures for the first half. Notably, double-digit growth in customers to move past the 8 million mark. Solvency ratio remains healthy and inevitably with such an increase in profit return on equity for the half was very strong, nearly 70%. The big increase in the interim dividend and we've confirmed the plan for the proceeds from the comparison disposal.

Let's get to some of the details, starting with revenue and customer numbers. A pretty pleasing set of figures here. Each of our segments has grown in the first half of 2021. The UK Motor business grew customer numbers by very healthy 12% over 5 million new vehicles added over 12 months. Good retention throughout that period and a very strong H2 last year were key factors. Turnover in the comparative period was impacted by the GBP100 million rebate. And so the 9% growth reported here is somewhat flattish.

Continued good momentum in UK household 15% more customers and turnover up 20%. On our International Insurance grew their customer numbers by 14%. There is some currency movement and pressure on average premium spent turnover growth was a bit lower. L'olivier in France continues to grow particularly strongly. Customers from the non-UK Motor business is now account for 40% of the Group's total and that measure continues to increase despite the continued strong growth in the UK Motor business. Although the Loans business is showing balances down year-on-year as we'll see later since we restarted writing loans in H2 last year the business has grown quite nicely. All in all, happy with the H1 top line figures.

Let's start to look now into the big profit increase. This slide shows the Group income statement H1 versus H1. And as you see the UK business was the main driver of the change. That UK result was up by GBP240 million with a strong increase in household profit driven by higher premiums and a better combined ratio, but particularly a very large increase in Motor profit which I'll give a bit more detail on shortly.

Our international insurers were basically at break even in the first half, slightly worse results compared to last year. The loss ratio in the comparative period being more positively impacted by COVID. European insurers reported a lower profit partly on the back of investments in growth whilst the loss in the US was broadly flat. On the Loans front, a big drop in the credit-loss provision charge led to an improved results half year on half year. That provision though remained prudent.

And in the other items an increased share scheme charge was one of the big drivers and there were also some non-recurring costs for some of the regulatory projects and other matters. But clearly, the big story here is the UK Motor results. So let's talk a bit more about that. This slide shows the UK Motor income statement, and as you can see profit increased from around GBP310 million to GBP530 million and we've highlighted the main drivers of the change.

Points 1 and 4, higher premiums and lower current period loss ratio just positively impacted by lockdown earlier in the year are important factors. But clearly points 2 and 3, the higher reserve releases and much higher profit commission revenue are the key items

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and this slide explains a bit more about what's happening there. On the top, we show the book loss ratios at the end of the current half year along with the changes in the ratios since the end of 2020. So for example, the 2019 underwriting years now booked at 73%, down 3% from the end of 2020.

And on the bottom, we show reserve releases and profit commission split by underwriting year for H1 this year and H1 last year. What's happened in the first half of this year is firstly somewhat bigger reductions in the book loss ratios across a number of years. And secondly, quite a few of those years are now very profitable as you can see with book loss ratios in the high 60s, low 70s. And those two factors combined to lead firstly, the bigger reserve releases notably on the committed share of the business. And secondly, because of the greater profitability to much higher profit commission as you can see in the green on the bottom chart.

So in summary, there are more points of booked loss ratio movement and each point of movement is generating more profit. Movements on the back years as always predominantly related to improved projections for bodily injury claims as Cristina will touch on later. The 2020 underwriting year is particularly notable, very positive given its relatively early stage of development and the low book loss ratio is already leading to very significant profit commission being recognized. COVID has, obviously, had a fairly notable impact there.

There's been no change to the relative level of conservatism overall in the book reserves compared to the best estimate nor the margin held on the most recent period. As we noted in the trading activity a few weeks back, it's extremely unlikely that this level of reserve release and profit commission will be repeated in the second half of this year. And we also fully expect that our current period loss ratio for the second half will be higher than the first half. Obviously, we are very happy to get into more detail on the UK result with anyone who needs to.

Moving on now from profits to look at the half year capital position. The top chart here shows the capital position in terms of the requirement, the surplus and the solvency ratio just to note that these figures don't include the capital from the comparison disposal. We see a GBP55 million increase in the level of surplus moving the solvency ratio up to over 200%. On the waterfall -- on the bottom of this slide, we set out the factors that contribute to the change. A fairly notable reduction in the capital requirement is partly an unwind the increase we saw at the end of 2020 related to higher profit commission risk.

A brief update on the internal model. As we spoke about back in March, we've taken some time to review various aspects of the model. And this has changed the timing of our application for approval. We'll continue to use the current basis of calculating the capital requirement and we'll provide updates on progress in due course, but not necessarily with every results presentation.

We're declaring a large increase in the interim dividend, so let's take a look at that. As you see here, the current period interim dividend is made up a two parts. The regular dividend on the first half earnings and then the element related to the comparison disposal proceeds. The regular part, it's a 115p per share, just over 60% higher than 2020's interim and that increase is broadly consistent with the change in earnings per share. The payout ratio is 87%, that's in line with the 2020 full year. And then the second part relates to the proceeds from the disposal of the comparison businesses which completed earlier in the year. As you can see, we are planning to pay a large majority of the net proceeds to shareholders as special dividends. The total is GBP400 million and we will phase the return over three dividends. This interim 2020's final and the 2022 interim dividend. And so the final payment will be a year after the first, and we were expecting three payments of 46p per share. The reason for the phasing is to smooth the return and the associated bonuses over 2021 and 2022 rather than pay the whole amount at once.

Before I wrap up, I would just point you to the reinsurance slide in the back of the presentation. We are in the process of contracting a new long-term agreement with Munich Re on reinsurance for the UK business. There'll be a change in the mix between co-insurance and quota share and improved terms for Admiral. Some high level details are included there and more to follow with our full year results in March 2022.

A quick summary from me of the financials. There is growth across the Group notably, but not just in the UK Motor business, a very large increase in the first half profit driven by bigger reserve releases, much higher profit commission and a better current period loss ratio and a very large interim dividend with a healthy capital position maintained.

I'll pass you now to Cristina to talk about the UK. Over to you, Cristina.

Cristina Nestares {BIO 18674745 <GO>}

Good morning, everybody. It's been a solid half year for the UK Insurance business. Key highlights, strong growth in our Motor book of 12%, very good loss ratios, both for recent and past years as you saw in the numbers referred to by Geraint. This is a testimony of our strong underwriting capabilities as we continue to outperform the market in claims outcomes.

During the period, we have seen in claims an increase in frequency and a continuation of the underlying inflation trends. And in household, we have experienced good growth and record profit. The outlook for the future, well, we expect firstly market prices to increase in the second half of this year. And from next year due to the FCA pricing reform, we expect high price increases in new business in Motor and even higher in household.

Also, as Milena said, we continue to be a great company to work for and we have achieved several awards in this year in our UK Insurance business. These include being voted Best Company to Work For in terms of staff well-being. Second Best Company to Work for Women and top five for [ph]all staff.

Let's start with the strong growth in our multi book. In the market, we saw new business prices decreasing across the period even the frequency started to increase several months ago. Admiral reduced new business prices during the lockdown period by

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double-digits and we started increasing prices in March this year. So far, we have increased new business prices by mid-single digit. This means we remain significantly cheaper than before the pandemic.

You can see in our time stock graph that we became very competitive during the last part of last year but we have decreased our time stock strongly since March. This suggests that we're putting prices ahead of the market. Some of you might be wondering how we managed to grow by 12% even putting prices up. Well, explaining this, we need to realize that most of the growth came from the second half of last year and that during this year, the growth has mostly come from our renewals. Also, we continued to improve our operational capabilities and during this period we have a specially improve our digital offering to our customers. For the second half of the year, we expect limited growth as we continue to put prices up ahead of the market reflecting increases in frequency.

Now, let's move to look at things. Frequency is the main feature during this period and it is a feature that has had more impact on price changes and I think it will be the one that has more impact also going forward. As lockdown measures have been relaxing, we have seen frequency increasing. The good news is that actually frequency has increased less than what usage. The main reason for this is change in driving behaviors. The most significant one is that we have seen fewer pick hour accidents. In terms of claims inflation, we see a continuation of the underlying trends and in this period, we have seen higher power costs due to advances in vehicle technology and also an increase in the cost of used cars. At Admiral, we have also seen slightly higher inflation due to COVID, a couple of examples include waiving access to care workers and cleaning fees at garages.

In terms of large bodily injury claims, we have seen positive development higher than in other periods. As Geraint shared with you, the main rationale for these include more positive outcomes from some large settlement and faster speed of settlement as we have had more capacity due to fewer claims during COVID. If we take a step back and look at Admiral claims capabilities, I'm very proud to say that Admiral continues to outperform the market in claims outcomes. As you can see in the graph, our total claims cost is more than 10% better than the average. Some of the reasons that I would like to highlight for these are, the very experienced staff that we have in our Claims Department. Also, our faster capabilities both at settling claims but capturing third parties and this is still continuing to improve due to our changes in digital capabilities, and quite important is that we adapt quickly to market changes. An example of this is that we have been able to improve our fraud savings by 50% following a legal change a few years ago.

And while so many think an improving claim cost actually has a negative impact on customers' satisfaction, that's not the case with Admiral as 93% of our customers are likely to renew after a claim. Also, Admiral is particularly strong in the management of bodily injury claims where we have not a very skilled staff. This cost represent for Admiral a higher proportion than for the market because we have lower extra loss protection and would target higher risks.

Moving on to Household, we have also had very strong growth in this business and this has been helped by strong same-store performance that is we have been decreasing prices. Also, strong retention. We have managed to increase the gap between Admiral

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retention and the market average and multi-cover. The cross-sell of Admiral Household to new and existing Admiral Motor customers continue to play a significant part in our Household business. Our profits have also increase in the last 12 months. This is due to the absence of any significant weather event, improvements in our claims capabilities, and also due to corporate as changes in customer behavior has affected our claims mix. When people stay more at home, we see fewer theft claims and also fewer big escape of water claims.

To conclude, I would like to talk about our expectations for the next 18 months. But a disclaimer, it's very hard to make predictions as we can look of uncertainty and many moving parts. Next slide. When we look at Motor for the second half of the year, I would expect prices to increase. We have seen strong decreases in the market in Q1 but much more timid in Q2. The ADI highlight quarter-on-quarter minus 1% reduction in Q2. This might suggest prices would be flat going forward or will it start to increase. In any case, we think market prices are going to lag in terms of frequency increases and in terms of what increase the market will need to compensate for this.

Also, we think we will see limited addition impact from whiplash because it has already been priced to some extent and also because it is still and certainly still difficult to know what the actual impact is going to be on claims costs. For next year, we expect strong increase in new business prices after the implementation of the FCA reform. We also expect in retention that there will be a reduction in prices, which will push retention up. However, the reform also makes cancellations much easier, which we think might push potential down. And then it's hard to tell how price comparison websites are going to react to this reform.

In terms of Household during the second quarter of the year, the market has become more competitive and we think this is going to continue during the second half as some companies might want to grow the book ahead of the implementation of the FCA pricing reform. And next year, we expect increases in market new business prices to be even higher than in Motor as Household book tend to have higher tenure.

That it's for the UK Insurance results. It's been a solid half year with double-digit growth both in our Motor and our Household book and very good loss ratios underpinned by strong claims management and strong execution as referred by Milena.

And now over to Constantino to share more about the international results.

Costantino Moretti {BIO 19792620 <GO>}

Thanks, Cristina, and good morning, everyone. Before diving into the financial results, I'd like to thank our people who have continued to serve our customers with professional passion and might even in a remote environment.

In this slide some pictures that celebrate our culture and successes such as great place to work, including Admiral Seguros ranking number one in Spain. Now, let's start looking at the set of results of our European businesses. The key message is that we have achieved a

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double-digit growth in turnover and in customers despite challenging markets and we have delivered a profit on a combined basis reiterating our commitment to build long-term sustainable businesses.

I'd like to expand a bit on the different geographies. In France, we are facing a very good momentum and we consciously invested more to achieve our remarkable high double-digit growth year-on-year both in turnover and in active customers. This is a combined result of a strong performance in direct acquisition supported by the investments in digital brand promotions and the softer market, which is less cyclical overall less exposed to premium fluctuations. In Spain and Italy, we have also achieved a significant 15% customers growth although lower than in France, but we have delivered good underwriting results comparable to a year ago despite more challenging markets with average premium fell due to less demand and high competition both driven by COVID.

Stepping back from the details of the various countries and looking again at the big picture. If we compare these results with the 2019 one, removing the majority of COVID impact, we see a combined ratio that is slightly improved with an overall customers growth close to 30%. To wrap up on the European businesses, a positive set of results in a context of continued investments in growth in competitive markets. We remain confident on the long-term trajectory and then should the focus on the risk selection, digital services, and expanding distribution will continue to offer significant opportunities.

Moving on to Elephant and to the United States markets now. The key message is that Elephant continues to strengthen the business fundamentals and therefore to focus on prioritizing bottom line improvements against top-line growth. Comparing these half-term results with the 2019 one, we see a clear improvement with a 30% loss reduction although turnover has been pretty flat as a consequence of a prudent approach to growth, expensive acquisition market where costs increased by 30% in the equivalent period and softer COVID impact with the claims frequency return at close to normal level since several months.

I'd like to briefly touch on the six months policy. It is now and why we have rolled it out this product and we have already seen some clear benefit on conversion and lifetime value. The six months policy gives us clearly more agility to respond to claims frequency and inflation changes while offering a compelling product widely appreciated by the US customers. Expanding now on the expense ratio, notably, we are seeing investments in digital and automation are paying off the efforts with operational cost per customers going down double-digit year-on-year. Finally, it is worth mentioning the new initiatives on distribution like agencies and partnerships that are delivering healthy and cost efficient growth though still at a small scale.

To conclude on Elephant, while recognizing that the growth is becoming more expensive raising the bar of the challenges in the future, I feel confident on the direction of travel and the progress made in the last semester.

Thanks. I'll pass over back to Milena to talk about our Loans business.

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Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thanks, Costi. We are very pleased that during this period, the Loans book has returned to grow while strengthening underlying fundamentals and with no significant change in the forms over the period. The graph at the top show new business evolution by quarter. As mentioned before, you can see that the business reacted quickly to the pandemic, but in the last quarter we were back at the COVID levels.

We had a modest loss of GBP1.9 million in the back book performance than initially anticipated. Scott and his team increased provisions as upon economic uncertainty big and reduced provisions [ph]as per the economic improve as you can see on the chart on the right. And the Loans business will maintain a conservative provisioning approach as we look ahead in line with our prudent culture. Another important element to note here is that our strategy remains the same as it was pre-COVID but the fundamentals of the business are stronger today.

Over the last year or so, we have built on our competitive advantage, improved digital capability and product for our customers. Our risk selection is also refine and how we use more data and the new pricing engine. We also continue to build scale to achieve expense efficiency ensuring that the business is a highly scalable operation for the future.

Our guidance for Loans balance remains on track for GBP500 million, GBP560 million in 2021 and if no further shock in the macroeconomic environment, we expect an improved Loans loss for the full year in the range of GBP3 million to GBP6 million and our loan business to become significant and sustainable contributor to Group profit over the longer term.

Speaking about long-term, sustainability in ESG are very rightly so recently taking more and more space in corporate strategies and the Board. We are strongly committed and we are adapting and adopting new best practices. And it's fair to say that this has been always in our DNA from the day Admiral was set up my Henry and David.

The customer and the people metrics that you see on this slide are metrics that we always lead every day. The best value we can create for our customer and the ease to offer more affordable options for more people and with good experience and looking back, we have been the most competitive motor insurer in the UK and one of the most inclusive with a large footprint and we did provide on average a great service also in the moment of through the claim as Cristina noted before.

This focus on doing what is right for the long-term over the short term is embedded in our culture and it is reinforced by our remuneration system with diffused staff shareholding across all the Group at every level that ensures strong alignment of interest also with our investors. And recently, it has been recognized with good ESG rating as well. We're also very committed to play a positive role in our community with charitable initiatives and we understand our responsibility on climate change. We are already using renewable energy and offset the carbon footprint, as well as supporting project such as the size of wind resource and tap for trees to protect forest in Kenya, where plants mutually (inaudible).

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We're conscious that climate change is a Navy where we all need to step up and do more. Our ambition is to be net zero by 2040 at latest and to achieve that, in the next 10 years, we aim to reduce emission by 50% and the next year across Scope 1 and 2. There are many initiatives in place across our operations and investments and we'll talk more about these at year end. But beyond the three scopes we can have -- where we can have a truly positive impact is the evolution of our product and services.

We are waiting underwriting more electric vehicles than our core market share and were growing this portfolio at very fast pace in the last year, and offering features as battery and charging equipment product. Becoming better service providers and on underwriters of greener asset is where we can have the greatest impact to support our community to make better greener choices.

In summary, a strong set of results and continued growth across the business is a reflection of good execution and strong foundations. And a commitment to continue to do what is right for the future for our customers, our employees and our communities.

Thank you very much for listening and we are now happy to answer your questions for which we will be joined by Scott Cargill our Loans CEO. Thank you

Questions And Answers

Operator

(Operator Instructions) We will start today with some questions from the webcast.

A - Marisja Kocznur {BIO 20556893 <GO>}

Good morning, we have three questions from the webcast from Alex Evans. The first question is from the reserve releases, it seems like you've been quite conservative releasing from the 2020 year compared to what you reported in the first half of 2020. Is that a fair assessment and it is down to [ph]zero gain sentiment at the moment?

The second question, you mentioned retention remains high, but we think you put true price increases higher than the market. What is driving this?

And the third question, as the revenue per vehicle continues to decline, is it possible to give some color on what would the organic and what is COVID related. I'll hand over to Milena.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you, Marisja, and good morning again, everybody. Geraint, do you want to take the first question and then Cristina the following two.

A - Geraint Jones {BIO 19738535 <GO>}

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Yeah. Will do. Thanks, Milena. So I think the first question actually relates to COVID, and so what we saw in the first half of 2020 was we moved the -- minus one year. So the 2019 underwriting you had down by 10 points and in the first half of '21, we moved the 2020 year minus one year down by 3 points. So obviously at the end of 2019, that was sort of pre-pandemic loss ratio time and when we were updating the loss ratio for the '19 at the end of the first of the half '20, obviously we were into the pandemic and so the big reduction there was really quite a lot that was related to COVID. So I think that's probably more of a COVID impact. We've seen generally big moves as we see in the presentation on the book loss ratios in the first half of this year, but the overall reserve margin, as I said, remains flat. There is a prudent margin on 20, that of minus one year as we would only expect to this point and we also see movement to the best estimate for 2022 to improve as well. (Multiple Speakers) to Cristina.

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. Thanks, Geraint. The second question was related to retention and price increases and, Alex, important to note that so far, we have been increasing prices only focusing on new business and therefore retention continues partly because of prices, but also partly because of improvements in our operations and digital capabilities.

In terms of other revenue, there are two key factors that explained the decrease. One is related to COVID, which is a reduction in the income at claims stage proportional to the reduction in the number of claims. The second impact is a reduction in the margin of the Motor Legal Protection product, and this is explained by an increase in the cost due to the whiplash reform. Thank you. We can now move on to the next question.

Operator

The next question is a telephone question from the line of Freya Kong with Bank of America. Please go ahead.

Q - Freya Kong {BIO 20097488 <GO>}

Hi, good morning. I have three questions, please. So, firstly on the favorable prior year development in bodily injury. You said that you don't currently expect this to be repeated in second half. What has driven the more positive outcomes in BI settlements in H1? Is there any observable trend here? And in terms greater capacity for your team to accelerate settlements, do you think we could see more of this in H2?

My second question is that you raise prices ahead of peers in H1, which saw some slowdown and go worse this year. Do you think that market pricing has turned now and do you think your relative competitiveness could improve again in H2 or will you continue to hike prices ahead of the market?

And my third question is just on the claims inflation. Could you please comment on your outlook for severity from here? How much of this has been included specific and how much is underlying and is underlying tracking in line with your expectations? Thanks.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you very much. And I think, Cristina, those are all yours.

A - Cristina Nestares {BIO 18674745 <GO>}

Yes, thank you. In terms of our bodily injury claims, we have seen higher releases than in previous period coming from positive settlement. Two key reasons behind this. One is a few positive settlements in some very large claims, which have a significant impact here. One is an acceleration. We might see some of these continue in the future, but not to the same extent, that is our view.

Second one was related to new business increasing in the market and you asked has the market turned? Well, if you look at the ABI quarter-on-quarter, price increases or sorry price decreases for Q1 and Q2, in the first quarter, the ABI was talking about minus 5; and the second, they were talking about minus 1 -- sorry, 7 and minus 1. This is an indication of -- that we might see price increases in the second half of the year. Hard to predict as there have been very different behaviors by different players. In the case of Admiral, we will continue to monitor the trends and frequency in claims inflation, our own loss ratio evolution and then decide what to do with prices. But so far, we have increased prices and we think that would be the -- we will see that in the second half too.

And the third question was related to claims inflation, the underlying trends around severity. We have talked about 3% to 5% in the past and we continue with that expectation in the future. There were some pressure on inflation and COVID specific areas for example trade higher because claims took longer to settle or around waiving excess for care workers. Some of those are -- or most of those are now coming down. So in the future, we would expect a continuation of the three to five separate inflation.

Q - Freya Kong {BIO 20097488 <GO>}

Thank you.

Operator

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

Q - Thomas Bateman {BIO 21707516 <GO>}

Hi, good morning. The first question is on growth. You continue to perform really excellently in the UK Motor market, that's why the market well. But I guess where do you see opportunities to continue to grow i.e. sort of what parts of the market and would there be any headwinds to you continuing to grow your market share?

And the second question is on the diversification of earnings. So UK Motor side, I'm just trying to think what the operating profit made up with the company looks like in five years' time i.e. how big this home International and Loans look in terms of contribution to earnings. I know that when you go to UK Motor business of the period when you really

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built up reserving strength there. Is that something that you'll -- that you are doing currently in the International business? Thank you.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you very much. I think your first question was on growth. I'm going to just have a general comment that we are committed to continue to grow our business in the different geography in insurance as well as investing more in diversification as you mentioned but the impact of COVID has been different in different part and made a bit more complicated to sustain the growth rate of last year in International. But despite that, we still have very healthy growth in Europe as being a bit more complicated than in US.

Cristina, do you want to expand a bit more on growth in the UK and then I come back on diversification?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. I'm going to focus on UK Motor and, yes, two parts. In the second half of this year, we expect limited growth. However, the rate of growth is going to depend a lot on what the rest of the market has to prices. You have seen in our graph how our time stop has really come down very quickly in just a few months. So from now on, it will depend on what the market does. But, overall, limited.

From next year, we expect high increases coming from January continuing during the year. And it is a bit hard to predict how the different players are going to respond but maybe there is an opportunity further down the line to continue growing.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

And on the diversification, the reason behind our diversification strategy is partially changed in mobility in the future. And it's increasing resilience core business and diversifying to make sure that we remain a very -- we will continue to grow in the future. There is an element of building on our strength and what we can deliver to customers. That usually is competitive product, but also I would say possibly more important is to provide better proposition to customers. So give them more product where we can provide good service at good price, engage with customer, enforce our relationship with them.

So with that in mind, our priority remains expanding the product proposition to our existing customers, existing geography and that's the main angle we take at debt. And if you think about this, there are two elements. There are some of our existing diversifications that are performing well that we are accelerating, like for example housing loans. We're pleased with the progress. We think we can create some special for the future and therefore we are willing to grow them faster and to continue to -- and to ensure they become a material part of our business in the future even more material than today. And then there is an element of testing new product, a new proposition and with debt in mind that we set up an incubator of new venture pioneer in the UK last year. And as mentioned before, we are starting now to test the wheel and we launch the first couple of initial product.

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Another angle to the rectification of product is of course also try to understand this change in mobility side trying to be in the terms of how the customers are going, how their habits are changing. For example, we have bigger this company that looks after no standard insurance and make sure that we will continue to evolve our motor insurance proposition as well as people change the way they move around.

Q - Thomas Bateman {BIO 21707516 <GO>}

That makes sense. I guess if I had to push you a little bit five years down the line, what portion of your operating profit is made up of UK Motor and what is from kind of other revenue channels?

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Yeah. It is a good question. The way we look at the business is we look at them in a relatively independent way and try to optimize the rate of growth and the margin as we go depending on the face of the cycle and the potential of the business. If you look at the next five years, the part of the business that may have a more material impact as well at the moment on impact. I would likely to be International Insurance and Household and Loans. Everything else I discussed before is more likely to have an impact in a different time horizon somewhere in five year to 10-year horizon.

How much international housing loans are going to be? I think we gave some indication about our ambition on International Insurance and we made some progress in line with that expectation and it is difficult to say for loans because there are some external factors as well. But as I mentioned before, we are very positive about both Loans and Household and we are growing that base. And so you may expect it to be a more material part of the top line and bottom line.

Q - Thomas Bateman {BIO 21707516 <GO>}

Thank you very much.

Operator

The next question comes from the line of James Shuck with Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi. Good morning, everybody. Three questions from me. Firstly on the commutations which were up quite materially year-on-year. I noticed that in relation to the reserves that were actually commuted, the level of commutations has gone up so quite significantly. So I think that GBP350 million of reserves, we've have seen GBP118 million of commutations. If you can just explain that difference to me please, that would be helpful.

The second question is around the 2021 book-to-loss ratio, which is coming in at 77%. You usually provide a bridge between the book loss ratios overtime year-on-year. So I think could you provide a bridge between 69% to 77% in 2020, 2021 in terms of frequency and severity, please?

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And the final question, you mentioned that you were seeing larger book-to-loss ratio than across recent years than usual and that's been driven by the VI side of things, but we're not seeing that on the ultimate scale. So if you do just explain the differential between the two, please. Thank you.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Geraint, are you happy to answer the first one and then the second one as well?

A - Geraint Jones {BIO 19738535 <GO>}

(Technical Difficulty) to repeat the first one. The first one is about commutations. But firstly, the size of the release on the share of the business. It was originally reinsured. And then secondly good spotting in the detail of the size of the reserve that we assumed as a result of the commutations in the first half of this year was larger. The second one is slightly easier. So the commutations that we executed in the first half of this year we're kind of in line with expectations. That was sort of contracts that came up for commutations in the first half. The reason is the bigger numbers because the years on the reserves are just bigger.

So more recently we've been bigger in size than the reserves that we've assumed as a result of those commutations that I guess were being larger. So there is nothing really material to it than growth. And the first question, which is the bigger contribution to profit in the current period from reserve releases on the share of the business that was originally ensured. That's larger because firstly, a bigger loss ratio movements in the first half as I said on Slide 13. And secondly, there is bigger loss ratio movements are coming on more recent years where we can move to the reinsurance of the 4 points on 2018, the 3 points of 2017. The reinsurance is largely being commuted on those years. And so we're seeing quite a big contribution from our releases on that part of the business. So, those would be the reasons there. James, can you repeat the second question? Sorry, I missed a part on that one.

Q - James Shuck {BIO 3680082 <GO>}

Yes, sure. So it's the book-to-loss ratio H1 for H1 2021 which is you've opened at 77%. You normally provide a bridge between the book-to-loss ratio year-on-year. What do you want to do that with the opening one or the most recent one? But I think normally you do it from the most recent one. So it is a 69% book-to-loss ratio of 2020 in the open now for 2021 at 77%. Could you just provide the bridge between that in terms of frequency and severity, please?

A - Geraint Jones {BIO 19738535 <GO>}

I'm not sure we're going to. Normally, we often or sometimes provide a bridge of the accident year ultimate loss ratio. But we don't normally bridge the book-to-loss ratio. The reasons to be the same I think. We should obviously increase in frequency and underlying increase severity as well. But there are another numbers on the top of mine -- top of my head, sorry, James. But we don't normally bridge the book-to-loss.

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Q - James Shuck {BIO 3680082 <GO>}

The frame is slightly differently then. Just could you give more insight into the 77% opening loss book in 2021 versus what it was in 2020?

A - Geraint Jones {BIO 19738535 <GO>}

Well, I think on 2021, we expect the end final ultimate loss ratio for 2021 which of course would include the second half of 2021 is likely to be known higher than 2020 which is an underwriting year that's going to benefit very materially from COVID and reduce frequency. So the stock initial pick on 2021 I think reflects our view that 2021 ultimately will be higher loss ratio year than 2020.

Q - James Shuck {BIO 3680082 <GO>}

Sure. Okay. That's helpful. And then just on the -- the other question just on the larger book-to-loss ratio developments. We don't see that same pattern coming through in the ultimate which has been revised down to a greater extent than previously.

A - Geraint Jones {BIO 19738535 <GO>}

Yeah. I think that was a fair observation. What you actually see if we extended that -- the ultimate loss ratio chart back over all the years, you do see somewhat greater improvement in the overall best estimate reserve in the first half. My view, James, it's not that apparent from the loss -- from the chart partly masked by rending and we haven't assumed over the years as well as these some developments on [ph]LDUs which Cristina referred to earlier which you normally see later on after these years but it is quite settled. But there is a bigger improvement in that business in the first half than usual.

Q - James Shuck {BIO 3680082 <GO>}

Yeah. Okay. Thank you very much.

Operator

The next question comes from the line of Risha with Deutsche Bank. Please go ahead.

Q - Risha Singh {BIO 20804715 <GO>}

Hi, thank you for taking my questions. I've got two. So the first one is on UK car. You mentioned that much of the growth in customers in the first half came from the renewals rather than new business. Are you able to provide a split between the renew and new business growth and how do you expect that growth to develop over the remainder of the year?

And the second one is on international car. You mentioned seeing a strong customer growth in Spain and Italy of 15% year-on-year despite the competitive market conditions. What's driving that growth and how are you thinking about the outlook for the rest of '21 and then going into next year as well?

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A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you. We don't normally provide the precise split, but Cristina, maybe you want to add some color around it on the first question and then Costi answer on the second one?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. As you said, Milena, we don't give this is split. But I think we're going to see in the second half of the year a continuation of what we saw in the first in the sense that we don't expect new business sales to grow versus last year. Actually, we think it's going to be a very competitive market with some players trying to gain share ahead of the introduction of the FCA reform. So no growth at all coming from new business and possibly continue to have very good retention.

A - Costantino Moretti {BIO 19792620 <GO>}

Good morning, everyone, again. So in Spain and Italy, there are similar stories. So the strong growth has been primarily driven by good performance in direct acquisition and expansion towards more traditional channels. So distribution through brokers and agents. And about the future outlook, I think it will depend also on the price level. As I commented, there is high competition in those markets. So far, we have been able to beat the competition to deliver a good growth, and we will continue to with the same focus we have had so far and -- but it will also depend on the market decisions on prices.

Operator

The next question comes the line of Nick Johnson with Numis. Please go ahead.

Q - Nick Johnson {BIO 1774629 <GO>}

Hi. Do you hear me.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Yes, we can.

Q - Nick Johnson {BIO 1774629 <GO>}

Great, thanks. And so the first question is on the decrease in UK Motor ancillary revenue. As you mentioned more business has been completed digitally and that's had an impact. To what extent has been ongoing trends in digital sales continue to increase? Are you seeing opportunities to improve? Add-on take-up rate as digital sales journey is refined and that's the first question.

And then second question is on UK vehicle growth. Just wondering how much of vehicle growth is due to an increasing proportion of customers with multi-car i.e. what is the underlying customer growth rate and just to a significant opportunity for multi-car growth within the existing customer base. Thank you.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

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Thank you. Given they are both UK Insurance, Cristina, do you want to take them?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. On additional income as you said there is pressure when these sales are done online. It's something that we have been seen for a number of years. We launched a few months ago our Tier proposition because we think this is a better way for customers to understand our product and it's easier -- it's also easier for them, the customer journey and by the ancillaries. So we launched this. This is still on a test mode, but the initial data, it's very positive and we think that is the best way to continue selling ancillaries online. However, we think there might still be pressure in the future.

The second question around vehicle growth and what percentage is multi-car. We don't want tend to -- we don't give this is split, but we're very -- we're doing well on our multi-car and multi-cover proposition. It's an area that we continue to enhance and improve and our customers react very well to it because we provide very strong discounts and a much easier journey.

Q - Nick Johnson {BIO 1774629 <GO>}

Okay, that's helpful. Thank you very much.

Operator

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

Q - Will Hardcastle {BIO 16346311 <GO>}

Good morning, everyone. Two questions. The first one is how is the dynamic between the retention in the new business volume change from the January to June? It's the six month period progressed and related on, are you still seeing a net benefit in volumes from higher retention and higher new business or has it slowed down somewhat?

And the second question is regarding the large BI settlements in the favorable outcome. I guess what would be the calendars suggesting that if you had a higher number of staff in claims management and this could actually result in further claims settling quicker. I'm trying to think what this could in fact be maybe a bit more than just a one-off or is this is just a one-off? Thanks.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Cristina, do you want to take this?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes, of course. So when we look at the first half of the year, what has happened is that when we compare our pro to new business sales versus the previous period it's been very flat. Remember that in Q2 last year and specially around May, June, which is the opportunity of strong growth, when it comes to renewals they come from a larger base.

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So when you look at the number of customers that have renewed into total versus the previous period, there has been growth.

You asked how do we see this continue in the second half of the year. Again, as mentioned, I don't think we're going to see growth in new business sales. It will depend not just on what we do, but what the market does. But in our view, the market may still be very competitive. I think we might see price increases in the market, but possibly not to the extent that they should be, in our view, and therefore we might still be very competitive.

Your last question was around bodily injury settlements and whether having more staff might help. What has happened during this period is that we had much fewer number of large BI claims coming in. So, yes, it did allow the team to maybe close faster some of the pending claims we have. We review our staff levels and we're comfortable at where we are. That means that we might do things with a bit more staff, but we don't expect significant changes in the future.

Operator

The next question comes from line of Faizan Lakhani with HSBC. Please go ahead.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Hi, can you hear me?

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Yes, we can.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Just a few questions from me. First, congratulations on good set of results. First question was on the Italian price on the pricing power from the website on motor insurance. What is the implication? Do you have any update on that front?

The second question is on the Household insurance book. My understanding is that you've benefited from from COVID and the fact that people stay more at home and claims are lower on that front and also relatively benign weather stripping that out. What is the underlying possibility in the Household book?

And the third question is on the change in the reinsurance structure. My understanding is that the quota share reinsurance tends to be more profitable, but given the fact the book-to-loss ratio in recent years had been fairly low, is that benefit more muted or could we see a sizable increase of the base going forward.

And last question if I may is just on large BI. Your peers mentioned similar trends on large BI. How much of this is GTA change in the type of accident we are having versus no -- your own idiosyncratic improvement in your book?

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A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you. Thank you for your question. On the -- on the investigation that you referred to in Italy is the market wise phenomenon involving a lot of company and price comparison side. It is ongoing but there is no conclusion and it's really, really early to comment. Of course, we are fully collaborative with the authority. But it's really early stage.

The second question I think, Cristina, was for you.

A - Cristina Nestares {BIO 18674745 <GO>}

Yeah. Thank you for the congrats. You were asking about the underlying profitability of the Household book. It's a bit too early to comment. This is still a relatively young business and it's growing a lot. Some of the key trends that will stay is first, when you look at the size of the renewals book transition business, we see that it's growing every year, and that definitely helps profitability in Household. Given the cost of acquisition versus the premium, it's very expensive to grow. So the bigger the renewal book, the bigger our profitability.

Second, we have been -- every year, we have been improving our data and our claims capability and that translates into better loss ratio. So improving underlying trends, we're positive about the future but too early to comment what is the stable combined ratio at this stage

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you, Cristina. So, can you remind me the third question?

Q - Will Hardcastle {BIO 16346311 <GO>}

It is regarding to the reinsurance structure and the profitability of the change in the structure that's bigger now.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Perfect. Geraint, do you want to take this one?

A - Geraint Jones {BIO 19738535 <GO>}

Yes. There is some details in the back of the pack but main impact I think we talk about now is the change in the mix between co-insurance and quota shares, the 30% that's underwrites currently is co-insurance will split from 2022 to 20% co-insurance and 10% quota share. I'm not going to share the operates like the rest of all quota share contracts, the current 38%. There are some details around the back of the pack. So that's -- sharing those will change.

In terms of the co-insurance will also improve and we'll try and disclose as much as we can on that with our full-year results in March. Overall, is quite notable improvement in profitability to Admiral.

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Q - Will Hardcastle {BIO 16346311 <GO>}

Would the impair -- would the impairment possibility to be as significant (inaudible) book-to-loss ratios are quite low right now and that with the co-insurance should be quite helpful itself as well or in the short term. (Multiple speakers) with the impact less (inaudible). Yes, and then maybe acceleration long-term.

A - Geraint Jones {BIO 19738535 <GO>}

I think the outlook for the near term is that the -- some of the recent years, as you can see the book-to-loss ratio is very low there into the top tranches of the profit commission structure on that current insurance. And so we will continue to be profitable as those years' released their loss ratio. That's the ultimate position. So because of near-term outlook. The profitability on those open years is still positive. And then as the contract changes which only takes effect from 2022 underwriting year, but also changes the share of the profit that we take from that underwriting year was not certain at this point to comment on how that will feed through. So that will impact years post 2022 and year to come.

Q - Will Hardcastle {BIO 16346311 <GO>}

Okay.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Your last question was around the large BIs and whether we see a fundamental change in the type of accident. Yes, there have been some changes especially do we look completed, for example, we saw less -- lots of BIs coming from between driving on a late Friday or certainly night. We saw also basically if you look down last year when the weather was excellent, we saw many more people being injured, motorist or pedestrian to people when they were with the bike. And also we saw less number of passengers in a car. So, you didn't see as many accidents with five even six people on a car, but those are changes that impacted period mostly and we don't see a change in the underlying trends for the future and neither we see a fundamental change in on the cost of this BIs. It's just different causes for the claim.

Q - Will Hardcastle {BIO 16346311 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions) We will now turn it back over to the webcast questions.

A - Marisja Kocznur {BIO 20556893 <GO>}

We have two questions from Anthony Young. The first one, both related to UK Motor pricing. First one is what is the biggest risk you'll be to prevent pricing momentum in the second half. And the second one is, Cristina, you mentioned maybe some pricing volatility post implementation of FCA pricing remedies. Could you elaborate and what would prevent you from increasing higher new business prices after January 2022?

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A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you, Marisja. Cristina?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. The first question is around pricing momentum in the second half. Two main ones. One is external. If we have a third wave or shall we say third or fourth lockdown period or any significant market changes that would definitely have an impact on prices. But the second more likely one is basically competitors appetite for growth. I think there are some companies that might take the opportunity to grow ahead of the implementation of the FCA pricing reform or other companies that might look at the reserves and how they have a strengthened in the previous period and may take the opportunity to grow.

In the case of Admiral, we tend to look at that or look at our prices trying to optimize what we think are going to be a trend in the next following months. So in the next 12 months following and that's what we're going to be looking at.

Your second question was around volatility pricing -- in prices from next year. First, I think it's important to highlight that in Admiral we -- I think starting today, we were planning to increase prices at new business and reduce prices at renewals that I think it's going to be the trend in every company in the market. Different volatilities because some companies might have further strategies. For example, they might launch products and new business like renewals, which have different feature. They might use different challenge -- sorry, different channels, because the FCA reform looks at products and channel as different.

You might also have companies, especially in the household arena where new business prices need to increase a lot to compensate for a big back book and also to look at compensate for the relative difference between new business and renewal terms.

So as you can see, it's really going to depend on the kind of mix of the different players, but just to reiterate, in the case of Admiral, we will be rational and we will increase prices at new business and reduce in renewals.

A - Marisja Kocznur {BIO 20556893 <GO>}

Thank you. The next question from the webchat is from Henry Heathfield. Two questions. What should be and what is the appetite going forward to acquire customers on price comparison size versus direct to yourself. And the second question has the sales in Penguin Portals had an impact on your ability to acquire customers? If not, why not?

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you, Marisja. So in terms of active item distribution channel, price comparison side are by far our dominant channel in almost every market in which we operate. Maybe I think excluded and we expect this to continue to be the case. On the vast majority of the private car insurance bus to price comparison site in the UK. It's a different situation in International, less extent but still a predominant channel for that ex player. And we like them because they are a great proposition to customer, but also because they like this

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pricing both competitive but also pricing sophistication that we think that plays well our skill.

So, and yes, we don't see difference in results between owning or not owning price comparison side also because also when we own them we also manage the business then independently. Historically, we liked to have price comparison site because we create the distribution channel in some cases and that was as I mentioned before, a distribution channel that was great to us and also because we had a good understanding of our main distribution channel. But in terms of specific results and quote on conversion that doesn't make any difference.

In UK in particular, the market is very mature. There are several large player and the business is quite stable. As Cristina mentioned, there may be some change in terms of the different growth given from the FCA pricing reform but that's a bit early to comment. Of course also try to track customer directly and making sure that we have a good direction is also important but price comparison side by far dominant a bit less the case for and also sorry multi is very important. So we do have a different product and we do invest a lot in trying to sell that into more product with our existing customers.It's a bit less predominant international insurance cost if you want to add insurance.

Costi, I don't know if you want to add something -- some color on the international.

A - Costantino Moretti {BIO 19792620 <GO>}

Yes, Milena. I echo what you have said are less predominant than in the UK, but are still very -- a very important source of business for us, in particular in Europe. That being said, I think that we do have an appetite to continue to grow our businesses as we need more scale and so we have decided to differentiate the source of growth for our businesses in particular in the more stagnant market like Italy and Spain. So, still a very dominant -- a very important channel for us. But we are also keen to open more opportunities for growth for us.

Operator

The next question is a follow-up from the line of Will Hardcastle with UBS. Please go ahead.

Q - Will Hardcastle {BIO 16346311 <GO>}

Hi. Thanks for the follow-up. It's a quick one on solvency. If I look at the half year last year and the half year this year, the SCR is the same despite very sizable growth in UK Motor, Household, International business. Just really trying to understand what the moving part share, what the offset share were in order to maintain that pluse? Thanks.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you. Geraint?.

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A - Geraint Jones {BIO 19738535 <GO>}

Yeah. There's a couple of things going on, Will, in the sort of last year, which means that it appears it's plus half year on half year but is down obviously from the end of the full year to the half year '21. What we see is that the insurance business has grown so the top-line is a bit high, not dramatically higher, premiums have not as much as customers thus driven an increase the lowest business is down half year on half year so that has brought it back down a bit.

And as I think as we talked about before, the outlook for profitability, which impacts the capital requirement is lower, and looking forward to the next 12 months at the end of June, '21 and it was what we looked towards 12 months at the end of June '20. So that means that would offset as well. So all those things taken into account means basically a flat position half year on half year down from full year to half year. It's quite a few moving parts as well.

Q - Will Hardcastle {BIO 16346311 <GO>}

Thanks,

Operator

The next question is a follow-up from the line of James Shuck with Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi, thanks for taking my follow-up. Apologies for this one but IFRS 17, Geraint, just interested and they will implications that might have for you because you've historically reserved very conservatively and offer -- much closer to best estimate which has all sorts of implications in terms of any volatility and potentially solvency needs. So just elaborate on the thoughts on that would be helpful.

Secondly on the FCA pricing reforms. As the new business increases pricing in order to generate the same returns as we flash through the market impact from the FCA reforms and it will back out the kind of renewal rate increases of the past. Are you able to give any insight into what the potential earnings impacts might be for you as we move into 2022 and whether there is any offsetting impact on the profit commission and perhaps commutations.

And the final question on -- the third question is just around the ultimate development. So historically they developed very favorably in the past. I think it's my question before, we're not seeing quite the same positive development at this point. Do you still develop -- expect the ultimate to develop favorably? And if so would it be less than they have done in the past? Thank you.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Geraint, do you want to start to take the first one?

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A - Geraint Jones {BIO 19738535 <GO>}

Yeah, IFRS 17, a lot were going on, obviously, in the background, big theme on that and implementation of that we'll talk more to the market. I think it's 2022 on the likely implications of that how our results likely to look into that new standard, which also takes effect from 2023.

There's nothing in the standard that prevents the company from taking a prudent and cautious approach to reserving in the accounts. I don't expect us to keep on doing that. We think that works well for us and well for the shareholders as well. I think what you definitely will see is more transparency on the book position in the accounting relative to the best estimates (inaudible) and things like that and I think it's very clear or becoming very clear that the way that the accounts look and the way the profit flows will obviously be quite different, KPIs will be different and so we'll need to spend a bit of time getting used to how our results we got reported from thereon. But more of that I think in 2022 and that coming into effect.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Sorry. Yes, Cristina, do you want to answer the second one?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. The question was around the impact of the FCA reforms on our earnings and related KPIs. I think it's important to highlight that the market, in general, tends to be very rational and tends to pass any of these changes in the market, especially profitability to customers.

A few years ago, we had a change in the Ogden discount rate and there was a very clear movement by all the market passing everything to customers. So I think it will take some time to fully understand the impact of the FCA reforms. But I expect the market to be rational and pass these to customers to keep with the similar level of overall profitability.

I think it's definitely too early to comment on any impact beyond this.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Thank you, Cristina. Geraint, you want to comment on the ultimate solution?

A - Geraint Jones {BIO 19738535 <GO>}

Yeah. What we typically see is that the most recent years of the ultimate loss ratio shops will tend to improve over time as some of the conservatism that we built into those numbers early on, obviously, comes out over time as we get more certain over the outcome. There is nothing I think that particularly changes our view but that should continue into the future. Cristina talked about it. We mentioned some acceleration of settlement a big injury claims during the first half, but I think we've been pretty cautious in recognizing that in our patents going forward. So I don't expect a material change. I think we should expect those more in recent years to continue to improve. There will be change.

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Q - James Shuck {BIO 3680082 <GO>}

Great. That's very helpful. If I can just circle back on the FCA earnings impact just conceptually, I mean, do you agree that should be some earnings headwinds two year as the new products start to -- start to price through and you just need to assess those at this stage. I understand what you're saying about a rational market. This is mathematically one might expect some earnings headwinds from that.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

This is a cyclical market. We think 2020 and the first half of '21 are particularly good years. So possibly we're looking at 2022 year that is going to be more challenging because of the unwinding of the discounts due to COVID claims inflation and also because of the FCA. So, yes, I believe in 2022 is going to be a more difficult year that we will all learn and understand more what the impacts are. So do I believe there are going to be headwinds because of the FCA? I think in this market, what really matters is how every player is in relation to the other players. I might be different optimistic and I think we're in a good position because we have a healthy book. We have customers that shop on a very regular basis and we have one of the largest renewals book.

So I'm confident that we are in a strong position. We have a strong underwriting capabilities which are going to be more important. But are there going to be headwinds in 2022? Yes, for a number of reasons. And unless the market acts rational and increased prices, there maybe even bigger headwinds.

Operator

Ladies and gentlemen -- sorry.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Sorry. Just before we close, I just would like to take a second to thank all the staff for the incredible work during the year that was definitely challenging. They've done a fantastic job and it's great relief to be able to share a record dividend with all our staff in this half year. So thank you, everybody.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect. Goodbye.

A - Milena Mondini de Focatiis {BIO 18674746 <GO>}

Goodbye, everybody.

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