Company Participants

- Adam Westwood, Chief Financial Officer, Executive Director
- Geoff Carter, Chief Executive Officer, Executive Director
- James Ockenden, Chief Actuary
- Trevor Webb, Claims Director

Other Participants

- Alex Evans
- Benjamin Cohen
- Faizan Lakhani
- Ivan Bokhmat
- Ming Zhu
- Nicholas Harcourt Johnson
- Robert Murphy
- Thomas Bateman

Presentation

Geoff Carter {BIO 20756770 <GO>}

Hi, good morning, everyone. Thank you for joining us. Well I know it is a very hectic morning for some of you. It's almost exactly a year since we found ourselves unexpectedly during our results presentation via Zoom. Not really sure I've moved very far from this chat, since we did the last results presentation. Certainly, the first one (inaudible) shared in the last year. We're very much live and in person as you can tell probably are fine whoever speaks, while on mute.

As we go through these slides we are very conscious that COVID is not just a claims frequency issue, there's been some real human impacts, some of which have impacted us here at Sabre as well. So I think it's important to keep our presentation this morning within that context. We're going to move through this fairly quickly, I'm trying to leave plenty of time for questions at the end. Though some other formats are normal and we have at various points given (inaudible) to our internal insurance's nerdiness.

A few more of a speak in the normal as we don't have to run up and down to the podium. Myself and Adam will do most the presentation, Trevor will talk about claims inflation and James will talk about how we've gone through pricing. As we go through this presentation if there's any technical faults that you can't hear you got here are the screens aren't moving on. Please put that in the chat when we get to questions at the end. If you can use this for the hands up facility and Han Row, who's facilitating will open up your screen, will open up your camera and your mic to take questions.

So, today's agenda the highlights financial results. We will as usual give you a fairly full view on market context as we say that. A little bit on our investment case and then a summary and outlook for next year. So our financial highlights, continued absolute focus on profitability. The key thing for us is being to maintain very strong foundations during quite a complicated and turbulent year. COVID-19 is clearly impacted our premium. On the flip side, we've experienced reductions in claims, in traffic and claim frequency. We looked to pass the benefits on to customers while pricing appropriately as we've seen, we do traffic ahead of us, but we have had residual benefits which gives us a loss ration benefit in this year. (inaudible) will talk about, reflects the quite a lot of moving parts actually in the year, which we'll talk about later in this presentation.

We're very pleased to pay our full year dividend slightly complicated way of describing it this year. If you include the deferred special from last year is 21.2 if you exclude that 16 pence. SER coverage 203% post-dividend, pre-dividend 155, post dividend very comfortably within our range. You can see on the right hand side, good net loss ratio, expense ratio slightly up mainly because premiums down, and the combined ratio very much in line with our long-term target.

The operational highlights really supported customers and staff throughout this period. We've maintained pricing discipline as we've gone through this year. Our prices are up by in excess of 10% in a market where previously probably been flat or slightly reduced. So we've maintained a strong foundation for future growth, which we'll come back to. We've covered long-run claims inflation. We've continued to optimize volume within our 70% to 80% combined operating range and we launched about five or six new rating factors during the year to ensure our price and sophistication remains at the forefront. We are continuing to expand our presence in the van and testing new ways of raising and some footprint expansion, now. The Saga opportunity has been inevitably delayed as we weren't able to get on site to test the new product, but we anticipate that, going live in Q2. As I said we've maintained very strong foundations for growth.

The other activities, we've had a minor operational restructure that's really to allow us to accommodate the growth we see coming with a increase in our headcount which will benefit our expense ratio. We're in the process of test launching our new cloud-based rating and administration system to sit alongside our current setup. This allows us to test new products very quickly and very cheaply, we'll talk more about that later. We think, this gives us an ability to test just moving slightly sideways from our current footprint. We maintained all employees on full pay and we continue to pay raises and bonuses as we go into this year. All employees on work-from-home at virtually no additional cost. Very detailed plans in place to respond to the forthcoming regulatory changes which we'll describe in much more detail later.

And as I -- I'm going to reiterate price increase in excess of 10% to ensure we are entering this year very fully funded. Finally, our roadmap to carbon-neutral is being developed and we'll publish more as we go through this year. COVID is clearly impacted in a couple of ways.

Premium, we've looked to past back or to appropriately allow for the premium discounts as we enter this lockdown period and James will describe in more detail how we've gone through that. Premium is significantly down due to a lack of car sales. Young drivers entering the market. There is normally about 1.6 million driving test a year in the UK about a 50% cars [ph] rate. So a very substantial number of young drivers haven't enter the market this year or last year adding to this year. And clearly, car sales, especially second-hand car sales have been very limited. So they could have an impact on the availability of premium in the market.

How quickly volumes bounce back will really depend on how quickly and will lock down loosens. We think April, the 12th is quite a key date when hopefully car driving tests can recommence and car showrooms open up again.

The flip side, claims factors, short-term benefits, reduced traffic I think is well understood perhaps less well spoken about is that theft is not down by the same proportion. Launch of PI claim settlement had been significantly slower to settle. There have been delays of court and delays in obtaining medical evidence for obvious reasons. And we don't yet know how consumer behavior reacts as lockdowns ends. Really what does the new normal look like, is it 100%, is it 105, is it 85, is there some sort of curve as we go through the next few months, is probably one of the unknown factors.

So our first highlights. I want to hand to Adam, who will go through the financial highlights.

Adam Westwood {BIO 20481660 <GO>}

Thanks, Geoff. Hi everyone, thanks for joining us remotely this morning. I'm going to run through the financial highlights for 2020. So, I'll talk through our results, focusing on premiums, claims, expenses and dividends. I'll try to highlight the impact that the unique market conditions during '20 had on each. Our monoline model really allows us to present a straightforward set of results. So, test the slides. Great.

So the headline premium of 173.2 million is down on 2019. It's largely due to our maintaining strict pricing discipline during challenging conditions in 2020 which is something I want to pick in the next few slides. Our combined operating ratio was in line with our expectation and the guidance we issued for the year at around 75%. Looking through that we'll see that's the result of a very strong loss ratio as an uptick in our expense ratio.

On investment return, we've removed some of the volatility here by classifying the assets in our buy-and-hold portfolio at fair value through other comprehensive income. So, our investment return grew in 2020 onwards, reflects the effective interest rate on assets hold. Removing the temporary impact of market value movements. The return of 1.4 million is therefore effectively the long-term yield across our portfolio. Profit before tax of 49.1 million, remains primarily a function of our premium and income and combined ratio. With decrease in earned premium and slight uptick in combined ratio, follows that our profit is down in 2020, which consequently feeds through to earnings per share.

We've made the decision to pay out effectively a 100% of our earnings as a dividend for 2020. The 2020 dividend quoted on this slide firstly includes the 5.2p deferred special dividend in respect to 2019, which was paid at the interim stage. After the payment of the year-end dividend our solvency coverage ratio remains very comfortable at 155%.

So, I'm going to dig into a little of what's been driving on top line during 2020. Underlying all of this remains our basic philosophy. We'll chase profit not volume making sure we priced our policies to cover all the associated costs. Because of this, despite the temporary impacts of COVID we've continued to price in our long-term view of claims inflation. That's against the market backdrop of static or shrinking average premiums over the last few years. We still believe that a significant correction to market pricing is required.

As you can see from this graph, which shows our price changes versus the market. (inaudible) during 2020, we did reduce our rates to reflect our assumptions of the temporary reductions in claims frequency during various lockdowns. James will give you a bit more detail on how we thought about pricing as the pandemic progressed. These discounts were always based on our best view of the cost attaching policies. We were never going to chase the market down. We believe that these discounts on new and renewing business were fair and proportionate without undermining overall profitability.

We suspect that some in the market were discounting far more heavily particularly during the most severe periods of lockdown, which of course, have an impact on our competitiveness, our overall premium. But the relative levels of discounting weren't the only issue. This slide shows the relative levels of quotes for new policies received through price comparison websites versus the same point in 2019.

At Sabre, we've always been skewed more heavily towards new rather than renewing business. So during those periods of low shop around during 2020, we think the less premium was available to us. All of which, means our premium during the year, bit like this. You can see that we started to build a little momentum during Q1 pre-COVID where rates appear to be hardening. Then during lockdown we saw a significant dip in our premium income. This recovered strongly immediately post lockdown, but then shrunk and restrictions were reintroduced. So we expect our dipping top-line income to be explained through primarily a loss of competitiveness relative to the market as competitors policies were over-discounted, and a significant reduction in the events, which would normally drive new business towards us such as new drivers entering the market and car sales. It's perhaps testament to our competitiveness within the more specialist areas of the market that despite this, we retained our premium at 88% of 2019 levels across the year.

Now, the other significant impact of the pandemic on our business, which was our claims experience. The headlines, our loss ratio is down year-on-year to 48.6%. Our expense ratio is up to 26.7%. I'll talk you through our loss ratio first. We can spit it into the cost recorded in respect of accidents in 2020, which start currently a loss ratio, and the movements on our estimated cost of settling claims recorded in previous years, which is our prior-year loss ratio.

On the current year loss ratio, this came in at 51.2% which is 11.6% below last year indicating more favorable claim experience. It's slightly this improvement was primarily driven by the reduction in claims frequency due to fewer miles traveled by policyholders in 2020. While we did discount new renewing policies in order to reflect these savings, the improve loss ratios came through largely on business written pre-lockdown or where with underestimates the benefits. Our reserved position continues to reflect our consistent long-term approach and allows for increased volatility on the latest claims.

We move to the market slowdown settlement of personal injury claims, which is of course, also reflected in our reserves. The prior loss ratio benefit is relatively low compared to previous year's at 2.6%. We've always said that the benefit from prior years will reduce as our model normalizes and exceptional reserve releases drop away. I previously said that this would lead to a normal prior reserve benefit around 4% to 5%, which would largely reflect the run-up of risk margins and open claims. The prior year benefits lower than that in part, because we have modestly increased our provision to cover things like, increasing costs of providing care, particularly in respect of potential periodic payment orders but also affected by the large claims.

Overall, our reserving methodology has been completely consistent with our views on the ultimate cost of claims representing the best data available at the right time. Onto our expense ratio, which is increased year-on-year to 26.7%.

This next slide shows a simple bridge between the 2019 and 2020 position. You may recall that 2019, is one of the cruel release of a little over GBP3 million, which obviously didn't recur in 2020. Otherwise, we face some cost pressures from increasing industry lobbies, increases an audit costs and the cost attached recruiting new members to our Board. Although we've largely offset these costs by keeping a tight control over our core expense base. The main route driver of our increase in expense ratio is the reduction in our income. While we have a significant elements of variable costs, but dipping premium will always have an adverse effect in our expense ratio.

We've maintained our staffing levels on full pay throughout the pandemic and the rewarded our staff with bonuses during the year despite the decrease in volumes. We're forward looking, so capital to manage the risk of overwhelming operations should growth surge back as it has done in the past. Moving slowly remote working has been broadly cost neutral with a small cost attached to running additional service negated by lower cost of running the business during the year. I should also add that we haven't taken advantage of any government assistance during lockdown.

I've added this slide to help observers when trying to compare expense ratios across the market. Our expense ratios all in, as we're relatively small monoline business, there's no way to hide our costs. All of our costs including head office expenditure, shares gain expenses, marketing costs and commission are wrapped up in our expense ratio. This next slide shows our allocation of invested access at the year-end. Our new asset management relationship with Goldman Sachs was timely given the economic turmoil persisted throughout 2020.

During the year, we step carefully into a more diversified, but still very low risk portfolio of assets. The highly-rated corporate and government bonds performed well during the air with no significant downgrades or losses. Our strategy centers on capital preservation in our investment portfolio, while attempting to earn a reasonable yield on the low risk assets. The way we record income and investments that's a little different this year. As I mentioned earlier, because we generally hold all our assets to maturity, the amount recognized in profit is the effective interest on those assets, which is reflected for the yield to maturity.

Short-term market value fluctuations in the bonds are now taken below the line. Whereas in 2019, all fair value movements were taken through profit. Dividend, our approach continues to be to return excess capital shareholders with that access being defined with reference to our current circumstances, while keeping the post dividend period end capital in a 140% to 160% range. This year, we've chosen to payout 100% of our earnings which takes us a little way into our capital range, but still leaves us, plenty of headroom. Our full year dividend excluding the deferred 5.2 pence with respect to 2019, is 16 pence per share.

My last slide is, one-off trend in the past, our capital position over time. As you can see we remain strongly capitalized. As we generate excess capital very quickly, our capital position is tended to exceed our preferred range. Mainly because of the time between calculating the capital available to fund a dividend and paying that dividend. We continue to aim to hold post dividend period-end capital in the 140% to 160% range and with the post-dividend capital distribution of 155% at year end. We're very comfortably inside it.

Thanks. And now back to Geoff.

Geoff Carter {BIO 20756770 <GO>}

Thank you, Adam. I'll just grab back control of the screen.

Adam Westwood {BIO 20481660 <GO>}

Okay. We are as usual going to give you our views on where the markets at. For these first few slides, I will drive the screen and James will talk. So we're going to go down in screen. Next slide, please. Approach. James, you all have to pick up.

James Ockenden {BIO 20485926 <GO>}

Sure. Morning, everybody. Okay. So we thought use this morning a bit of an opportunity to kind of describe how we went about pricing during 2020 with respect to COVID-19. So this is COVID-19 specific as opposed to the underlying kind of claims inflation. But I guess it's important to reiterate what Adam said which was that we kind of -- we stuck to our knitting in terms of our pricing discipline. And when the lockdown struck in March 2020, what we've got here is a chart which shows our volumes, premium volume, the yellow bars. And then we've taken the government traffic volumes as a starting point. And if I can have the next slide, we were looking to predict what would happen based on what we could see so far. So, I think it's fair to say, the lockdown started and we entered the first couple of -- the first week in April, the first thing we didn't do was have a knee-jerk reaction. We stayed firm, collected some data from both models to take a view based on the information that was out there, as to how we think we're going to price going forward. Because clearly, we were pricing a policy at this point for the next 12 months and with quite a lot of uncertainty around what was going to happen and what we could see was the traffic volume is down.

So I guess this first yellow, the first yellow line shows what we thought would happen to relative traffic and that was one of the inputs we use to get into our premium calculation appreciating again as the guys said that you've got things like fraud, you got things like theft not reducing during lockdowns, and then you've got this kind of knock-on effect on claim severity, increased severity costs potentially owing to COVID. So this was really just a starting point as to how we were thinking about how frequency might turn out, as of April 20. We can have the next slide, please.

So you can see this is the government data and how things started to evolve. So actually we didn't get it too bad actually. I mean we undercooked a little and you can see the volumes really came up, but on average over the period we were kind of in the right ballpark. And then I think as more information -- we unlocked over the summer -- more information became available and at that point, I mean things were kind of going back to normal. I think if we go on another slide. Thank you. We then kind of saw schools went back, traffic was as nearest to normal as it had previously been. But then obviously we had the announcement that would be going into a lockdown during November and December -- halfway through November to December and we could see, we took an estimate at that point as to what would happen and you can see our estimate wasn't too in line with the government, actually what happened with hindsight.

So you've kind of got November and December kind of up and down, with December up because you've got a Christmas effect wherever we knew everyone was going to be allowed out for Christmas so to speak, so we thought the time turns out, they went out and -- as long. And we took of view at that point that as that December that we -- which is the view that we didn't know we were going to go into a full lockdown from first part of 2021. But we had a feeling that we weren't going to certainly return to normal. So we took a view on where the traffic was going to be and where that would impact claims numbers and therefore, reflected that in the premiums. So if we got the next slide, please.

Actually, what happened was then as we got the new information that we would be in a lockdown we redid the pricing. So each of these kind of iterations is a summary point of different iterations of pricing and as soon as we found out we were going back into a full lockdown from the beginning of January effectively we changed our assumptions around the pricing. And I guess this really reflects one of our of our most recent assumptions around pricing, which is we think we'll be back towards what I would call normal, whatever normal looks like around the June, July mark this year. But -- and so far I guess it's showing with our modeling hasn't been a million miles out in terms of the shape with respect to the actual observed traffic volumes. I think what we're kind of assuming is the unwinding of lockdown measures we saw over last summer is going to be very similar in terms of behavior, in terms of traffic volumes. But like I say, we -- our expectation based on the information we have from the government and (inaudible) is that we'll be back to normal by -- around about July. And so in terms of traffic anyway, sorry.

Geoff Carter {BIO 20756770 <GO>}

Thank you James . So James has totally master degree and I don't. So he did those slides. Mine was a simple summary (inaudible) applied very scientifically valid discounts in a cautious way for limited periods. That price is reflected in declines by lower policy life not current profitability. Some portion was benefited this year is loss ratio and our view is over discounts are not optimistic assumptions that have very severe long-lasting but quite slow to emerging back and we've been very keen to avoid that risk.

I guess some for those you who known us for a few years, know we expect to shrink and grow in various market cycles. On here you can see our year-end policy numbers in the GWP. I think our view is that COVID feels like it's extended, the down part of the -- the weak part of the market cycle by around a year. We see no reason why that market isn't going to turn. We saw very strong evidence at the start of this year of market rate increases like to come through. So if we look back on, we're just over here. We're putting through quite a lot of price discounts and our volume was holding very steady. So very clear indication at start of this year the market price increases coming through. Clearly that all got stamped on when lockdown came in as market prices shrunk again. We've seen some fits and starts attempts and to re-increase rates. But fundamentally, it doesn't seem to have happened in the market. Within there is a risk the claims frequency benefits in this year's P&L blind competitors. The some of the underlying claims cost increases or our race to behold lower for longer.

To reiterate traffic reduction is not directly proportional to claims cost, because of things like theft claims. So we firmly believe that for many competitors rates need to adjust pretty sharply upwards in the near future. We have already dusted down our sort of scales of inflation versus deflation, for the eagle-eyed amongst, you will spot this looks almost exactly the same as last year already. COVID relating adjustments, suppress changes happening. We're going to talk through these little bit in detail. And for the first one is Trevor, you're going to talk through the claims impacts, if that's okay.

Trevor Webb {BIO 21909270 <GO>}

Thanks Geoff, and good morning, everybody. So overall our view of inflation remains pretty consistent in that bucket of 7.5% to 8%. I guess what I would say is missing from this slide is the impact of theft in terms of severity. But as we've outlined both from Geoff and from James, theft remains an issue in terms of frequency. But main drivers are around first and third-party property damage inflation of 10% to 12% and I'll unpack that in a couple of slides that I'm going to go through and we've also got personal injury severity inflation of between 5% and 6%. And I guess if you think that in terms of general damages that viable to the valuation of the judicial college guidelines came out at the end of 2019 and that had 7% impact in terms of inflation there. So I think overall these things tied together. We'd expect to see our competitors in a range around our numbers. Thanks, Geoff.

Okay, so just sort of looking at what's happening around Bent Metal. We're seeing increased cost of parts. I'm just going to take you through some examples in the next couple of slides. We also believe that there are still to come potential post Brexit impacts on the, obviously at the moment we've got significantly reduced volume. So the full story isn't yet unfolding. There is greater use of credit repair models by our competitors. So over the last couple of years we've probably seen something like 25% increase in the proportion of claims that go through a credit repair model versus a normal insurance subrogated model. And of course costs under a repair or under a credit repair model are higher than the traditional costs and we're seeing higher levels of inflation there. And increase on repair cost is driving an increase in total loss valuations. Now, we look to combat these inflation factors by managing our own damage claims in our network alongside our partner Innovation Group. And of course, we're looking to control third-party cost where we can really to mitigate the industry driven increases. Thanks, Geoff.

So with Innovation Group who manage both our first notifications, loss facility and our repair network, we enjoyed a material increase in terms of the buying power that we would have stood alone. So I'd like to thank them for some analysis that they've provided to support this presentation, really by providing some detail in relation to repair costs across the basket of vehicle. So what we've done is we've taken the most popular car makers and the list is there really just to look at how the cost of commonly damaged parts has been moving over time. So if we look at the first one, please Geoff. So this is the average cost of a car park for those top 10 manufacturers and you'll see between 20, 20 and 2019 we had an 8% increase with a significant increase across 2017 to 2018. So, this is year-on-year increases that we've seen for a number of years now and these are parts that need to be fitted to these common vehicles.

So we've broken this down in the next slide between, we take a right headlamp. So this is typically a component that will be damaged in a folk accident. So where a vehicle may have gone into the rear of another, this headlamp technology has moved on the increased costs. Last year, we saw an increase in excess of 17% in terms of the average cost of that component. Then if we look at a folk accident, so a rear bumper where we're clearly we gone into the back of somebody, again inflation on that component of almost 10% across that average jump basket of vehicles. Thank you, Geoff.

So we're facing into some other premium inflation factors. We finally got the rules over 100 pages of rules and practice directions in relation to the Civil Liability Act and the changes to Whiplash. So, we now know that it will be implemented from the 31st of May this year on an accident occurrence basis. So accidents on or after the 31, May will be subject to the new rules and the new tariff.

The original estimate was that there will be savings of circa 30 pence per policy in relation to cost savings from the introduction of the new Whiplash reforms.

Our hans [ph] view is currently we believe that benefit will be materially less. That's partly due to the fact that there has been improved personal injury claims experience in terms of frequency across the last few years and that's prior to the COVID. So we were seeing a gradual reduction generally in terms of AI frequency.

I think a word of caution however that it was going to be some time before impacts can be properly confirmed and assessed. These claims do take some time to settle and therefore, it's going to be a year or two before we're getting a good idea in terms of how severity is looking and frequency is looking in relation to these Whiplash reforms.

So we're continuing to see significant ongoing claims inflation. As I said previously, our current view is between 7.5% and 8% driven by increased costs due to technology in the newer vehicles and more of a push in terms of credit repair models. If current dynamics continue we see no reason why they shouldn't, then we do anticipate with there would be competitor margin squeeze. It may now be a significant market turn, whilst we don't know exactly when as claims frequencies return to a normal position on claims inflation, which is always been there and through we think that will be putting pressure on the market rates. Thanks, Geoff.

Geoff Carter {BIO 20756770 <GO>}

Thanks, Geoff. We've discussed in previous sessions that clams inflation's only really one part of the overall cost inflation. There are some other things going on. The first is the MIB levy. The MIB are that is going to increase due to the (inaudible) the recent Supreme Court judgement on the (inaudible) suggest that we may be not picking up those liabilities through MIB, but there work to go on how that works and indeed when that cuts in. MIB has also taken up the operational costs of being MOJ.

The FSCS levy doesn't get spoken about so much. But it's quite an important factor. There's 100% increase in general insurance levies this year and it's not a particularly small number, there have been several insurance companies, five years and I suspect there may be other periodical insurer, five years to come. Clearly impacts different issuers in different ways. I guess a higher volume low margin issuer may take more time through this process is just part of our overall cost inflation assumptions. A big thing is the FCA pricing review which I know has been spoken about many other sessions. I think everybody is aware that this effectively bans price walking between new business and renewals. I am not hearing much industry pushback on the fact these reforms would come through. I am hearing quite a lot of pushback on the timescale. I guess our view is that shouldn't be that long needed. What's been proposed has been known for quite some time as a potential solution.

We believe there is a real risk of some insurers operating, something about how maybe strategy to just track the ball forward along way to build the portfolio as much as possible before the FCA reforms come into place. It's a last trial [ph] to try and build a book before the new business where all price has come through. We suspect that may come in to the market. Some people might execute that well, others may be forced into copying may not executed so well. We don't intend to indulge ourselves in that going. On the reinsurance cost, reinsurance cost increased at 31.12 as you know where our reinsurance renewal is mid-year. (inaudible) about 5% increase besides price depended on your own claims experience.

I think we would agree with some previous comments that the value, on the lower levels is looking a bit shaky. So we will think about how we know what strategy as we go into this half year, but we won't make any fundamental changes to our approach.

This I think is perhaps one of the key slides actually in the presentation. We've decided to steer our own path. I think it's fair to say as we've come to through this COVID impacted period. We decided not to follow people down the rabbit hole of choices, reduced volume by over-discounting premiums. We believe that leaves us in a very fully funded position as we sit here today. If we think about the tailwinds that might swing in over the next 12 to 18 months, it reflected on here what we think will happen in market and how that may impact us. This is not necessarily in date order, we don't know when these tailwinds kickoff. But some of the things that we think will have to happen here. Some competitors already have Whiplash MOJ reform discounts in their prices. We have not yet fully put our employees, so we have some amendments to make on that.

Many competitors most still have some pretty big COVID discounts to unwind as James described we haven't really done that. We have a very minimal amount of discount from wan [ph] from this position as quote volumes increase and we hope that start coming from April the 12th. We should benefit from that increased volume coming through the market from car sales and new drivers starting to take driving test again. We do believe there is a significant market pricing correction needed we don't need to do that. We need to cover ongoing claims inflation in a disciplined way we don't need to correct. And as I think probably most people on this call know we don't differentiae price between new and renewal business.. So as the FCA pricing impacts come in that does involve market new business price increases we don't need to do that. We can hold our prices. So generally across this line, we would expect to see our competitive position improved as a next period goes by because we've been very disciplined in maintaining proper, effective fully funded pricing through the last year or so.

I want to spend just a few minutes talking about the investment case. I'm very conscious many of you have seen this before. This first slide continues to be our key principles maintain a wide underwriting footprint at the moment, we're quoting for I think around 99% of risks in the UK. So anyone coming to a price comparison website can expect to see a price -- or a consistent margin approach. Market-leading underwriting footprint. So we're continuing to target in mid 70s combined. Strong cash returns and controlled growth across the market.

Average quality premium last year was over GBP2,000 and written premium was over GBP1,000. So we maintain our slightly non-standard positioning. The largest premium last year, interest and it was over GBP30,000 for one risk and we had several premiums over GBP20,000 on the other side of the claims, our lowest premium was GBP150 then we had a lot of those as well. So we're very happy to write premiums very high or relatively low, add a consistent rather consistent margin.

I'd hope we've managed to demonstrate our (inaudible) after three of these principles. The one's we're looking forward to demonstrating now is the control growth across the market, which we do believe is coming. Our pricing approach we put this in last year the Bullseye for us in stable market conditions is 75% combined. I think we were quite clear last year in a soft market with right tools to right hand side of this graph and we were prepared to write much near 80% combined. We only really expect to be below 75% where we've been able to either some good news as conflict, unexpected good news where we've increased prices because growth is outstripping ability to operationally handle that.

Absolute focus on profitable business. With a key thing here is our combined ratio has been very consistently outperform the market for a very long time and we don't intend to upset the apple carts on this because of the slightly complicated year that we've just been through. I think important on our profitability, it goes up and down in a range, but we avoid boom and bust, so if you look at our profit here the bottom line you can see it reasonably smooth, it goes up and down a bit, but we're looking to maintain a regular flow of dividend and a sustainable traffic going forward.

Adam mentioned, our (inaudible) is capital as we described before, we really focused on lots of profit. We have a prudent use of insurance, a low-risk investment portfolio and consistent preserving when we see bad news coming through claims cost will reflect that very quickly reserving. We won't shy away from it all, kick the can down the road on that. Well, I will do it in flow was Adam says, up and around 100% of earnings. We've been very clear that we're prepared to use our capital ratio to support the dividend in weaker parts of the cycle, clearly as we go through '21 and '22 we'll be only through lower premiums and we're absolutely compared to look at using our capital range to support the dividend as we go through that period.

These are competitive advantages. High-quality underwriting always going to be at the center of our business. We have data lake full of the data that we have collected in a consistent way over the last 18 or 20 years. We use cutting-edge data enrichment, sophisticated pricing models and the scientific taking the human impact and subjectivity out of our pricing models. Cost advantage as Adam has described, we outsource where it's beneficial but we're very happy to invest in things that make a difference, we invested a lot of money in price enrichment and we've maintained, and intend to maintain our headcount and claims ahead of that anticipated growth despite the fact we have excess capacity at the moment.

Distribution split between brokers and direct we get the best of both worlds. We are channel agnostic where it comes when we make effectively the same profit either one [ph] This is a bit of personal bugbear for me, if I'm being honest. This is some stuff that I've cut and pasted from some recent sales pitch documents (inaudible) automated underwriting, state-of-the-art pricing, data lakes, technology, automation, lightning fast speed, API links. It all sounds very good and very modern.

I do wonder whether people think we set about with scrolls and quills when we do our underwriting, the point here is we do all of these things as well. And I guess we had the additional element that we have got a proven ability of a many years to make a profit as well. Growth, we really thought the 2020 will be the start of the growth phase for us and the first month to reconfirm that with the price increases we saw in the market. As we described COVID as help back that (inaudible) I guess everything we describe says we are pretty confident growth is on the horizon, the timers like be uncertain, but it is coming.

We see growth being driven by two main pillars and potentially supported by two others. And important within this any growth initiatives have to fit within our dividend focus strategy. We won't undermine our ability to pay dividends to attract growth.

So this is our sort of pillars and our focus pretty much works from left to right across these pillars. The key thing for us is to optimize and maximize what we already done in our existing products. The second column is product expansion. We described that we're looking where we are rolling out some value changes this year. We have other thoughts on some product enhancements and some product -- adjacent product development later this year.

Going forward we probably expected to research and test and potentially launch two new product adjacent initiatives a year. To the third column, if you identify opportunities we have don't the skillet, but prepared to think about recruiting people to help us with that,. But the DNA of those people and their culture must be completely aligned to what we do.

And last and in this place definitely least is M&A, with better look at M&A, but it must be good value and it must be complementary and supportive of our wider strategy. So our growth strategy very much from left to right across these pillars.

So the wrap up, on the summary very focused on our long-term strategy we haven't amended and we don't intend to amend it. We believe growth is coming in foreseeable future. We describe the tailwinds exactly when they start to flow with a little uncertain, we're pretty confident coming this year. In the meantime, we're confident we can maintain our profitability, natural variation, the absolute level of profit as volumes flex and our pricing discipline over the last 12 months has given us a very strong foundation to continue to pay dividends and take advantage of growth.

So by some fluke that was exactly 45 minutes. I mean now have time for Q&A. If you can use the Raise Hand function. Han will open your mic and individual camera, if you happy to be seen and we'll happy to take any questions.

Han, over to you.

Questions And Answers

Operator

(Question And Answer)

Hi, Geoff. So first question will be from Ming Zhu.

A - Geoff Carter {BIO 20756770 <GO>}

Ming, hi, can you hear us? Any help? Ming, I think you maybe on mute?

Q - Ming Zhu {BIO 17001429 <GO>}

Hi, good morning. Thank you for the presentation. Just three questions for me please. Since you've already increase your price more than 10%. How come you still got in the combined ratio in the sort of a mid-70s target for this year and I thought that is really a long-term target given, where we are now with the lockdown. I was expecting things could be better than that.

And the second is I think previously you've commented that your customers are not that price-sensitive. So given your top line and challenge last year. I just want to get a color in terms of the non-standard risk target market has that thought shrink a little bit? Is that weather challenges?

And also my third question is, what is really a normal level of reserve release going forward? Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

Okay, I'll take the second. I don't even seeing a lot and maybe James you can comment on reserve releases. So I think on the price sensitivity I mean we said at IPO. We thought around three-quarters of our portfolio at that time was non-standard. If you look at what's happened to premium, we are pretty much have ended up around that sort of level. So we don't believe, we really lost any competitiveness in non-standard area at all. As we expected, we didn't have a competitive moat around the non-standard stuff and we tend to lose business in the more, the more mass market area and I think that's pretty much what's happened over the last year.

Adam, you are going to talk about the COR target.

A - Adam Westwood {BIO 20481660 <GO>}

Yeah, certainly. So if you think back to the end of 2019, we came into 2020. Writing towards the top end of our combined operating ratio range in a relatively soft market. And as Geoff said that that's where we will place (inaudible) ratio talking to that point. We have increased prices over the year, with the goal that we can meet the inflationary costs that apply to that, we haven't necessarily stepped back down the combined ratio range. Overall notwithstanding some of the benefits that comes through from claims frequency from COVID for example. So -- and of course what we have done to various points during the year is make sure we've discounted in what we expect the claims frequency benefits might be. So on that basis, we wouldn't necessarily expect a significantly better combined ratio than one which you might have in a normal year, but nor do we expect our combined ratio to be at the top of the 70% to 80% range, as it might have been where we not to be in the situation that we currently are.

A - Geoff Carter {BIO 20756770 <GO>}

Yeah. Thank you, Adam. James, do you want to say anything on reserve releases?

A - James Ockenden {BIO 20485926 <GO>}

Yeah. I mean, I think as Adam has been saying for quite some time. We have been expecting exceptional releases to come towards an end at some point, they can't carry on indefinitely. I think it's very -- I think if I had the exact answer of how big the releases are going to be going forward, that's probably would've been a job, but the I think it's fair to say that we said that reserve releases would start to reduce, that may have reduced slightly more than expectation, but not outside of the realms of acceptability in terms of the how volatile they can be.

A - Geoff Carter {BIO 20756770 <GO>}

Yeah.

Q - Ming Zhu {BIO 17001429 <GO>}

Thank you.

Operator

The next question is from Nick Johnson.

A - Geoff Carter {BIO 20756770 <GO>}

Nick I think you're there?

Q - Nicholas Harcourt Johnson {BIO 1774629 <GO>}

Good morning all. Two questions. I think Firstly some of the peers are talking about increased price sophistication. Just wondering how confident you are that the loss of competitiveness, you seen in 2020 is general pricing adjustments in the market or and not increased sophistication by some of the peers? That's the first question.

And the second question on capital ratio. I think you said in the past that the capital requirement is forward-looking. So just wondering what level of growth is baked into the capital comment that you've got at the moment? Are you seeing a return to pre-COVID income in your capital comment number or are you seeing some additional growth as well? Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

If I take the first one and then James you can chip in and Adam, second. I think on price sophistication we are about standstill. I feel -- start to introduce Matt Wright, he is our Deputy Chief Actuary, who with James spends really the majority of their time looking at how we can stay ahead of the market on pricing sophistication. We test a lot of data on a regular basis, which has new techniques. So I'm very happy that sophistication is not where it is and I think it's pretty mindset because the difference where our mindset is profit first, volume second and that's how we set ourselves up. So James, you -- say anything else on that.

A - James Ockenden {BIO 20485926 <GO>}

Yeah, I mean I kind of echo Geoff's comments. I think that I mean if we -- what you guys don't see in the background is us wearing away on these kind of R&D trying to find new things. So our data scientists is forever trying to beat the current approach and we are implementing little things on the side that you guys don't necessarily see and we don't necessarily chants about. Similarly is related to the presentation. I mean, we just at last year we deployed our single biggest week, deployed five to six factors, one of which was a single biggest rating factor change in terms of we think it's very exciting and it was the biggest rating factor we've implemented for probably four, five years.

So I think there's no question in my mind that we continue to develop and challenge ourselves and find new ways of differentiating risk and that can go away from the traditional approach to rating. I think what we're seeing is as we have seen in previous cycles is quite a lot of the rationality in the market and as we've tried to stay we've -- as in my slide show, we try not to look too far ahead because otherwise we just be chasing the market down. We're basically emphasizing on the data and the information we have at the time. And being influenced by things like what the government telling us are going to happen rather than kind of, if last April we have taken upon and reduced our rates significantly. Yes, we do written more volume up, but we wouldn't have known that, there was no way of knowing it would have been upon, and that's not really the same way.

A - Geoff Carter {BIO 20756770 <GO>}

Yeah, thanks James. And then Adam, you were taking about the capital and the growth --

A - Adam Westwood {BIO 20481660 <GO>}

Yeah, I think we've been fairly open that we don't know exactly when the market will turn but we expect it to turn at some point. I think the key thing here is we've still got a lot of capital headroom and we would be very comfortable moving around within the range that we've currently got in order to fund that and the capital strain generated through growth is, there is some but it's not as substantial as it might be say our combined ratio was a lot higher. Because the business horizon is profitable it sort of self-funding from that perspective. So we've (inaudible) ourselves enough wiggle room that. We weren't necessarily need to constrain growth because of where we are in the capital range. But I suppose the development of how our premium looks will depend a lot on what happens throughout the rest of this year.

A - Geoff Carter {BIO 20756770 <GO>}

Thanks Adam.

Q - Nicholas Harcourt Johnson {BIO 1774629 <GO>}

Thanks very much.

A - Geoff Carter {BIO 20756770 <GO>}

Thank you, Nick.

Operator

The next question is from Ivan Bokhmat.

A - Geoff Carter {BIO 20756770 <GO>}

Ivan, are you there? Yeah, here you are.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

The question is -- it's a couple actually. The first one would be on the expense ratio and on the degree of fixed versus floating costs. Let me say your quoting volumes have been much lower, but it didn't seem to brought a lot of -- a lot of benefit to the expense ratio. And secondly, it's just on the capital efficiency. I've noticed that if we, look very simply and divide your premiums by your or divide your SCR by your premium volumes, that capital intensity has increased quite a bit throughout 2020. Could you maybe give us a bit of an outlook on how your capital generation going forward should look like? I mean, is it going to be further increase in capital intensity or other any one-off that you would quantify? Thanks.

A - Geoff Carter {BIO 20756770 <GO>}

Thanks, Ivan. Not, give you time. Adam, I think you're taking those two straight away.

A - Adam Westwood {BIO 20481660 <GO>}

No problem, Geoff. Thanks. Thanks for the question. Expense ratio, yes, we still have a pretty high proportion of variable costs. If you look at the slide, I presented earlier it separates out the commission element which is almost entirely variable. I think that was around 8.6% of the total expense ratio. Beyond that, we do have staff costs, we do have property costs and other overheads of running the business. It's a sort of back of the envelope calculation to get to how much of that remaining product costs is for the variable.

I think it's fair to say where we not in the situation we are where, a big proportion of our costs is variable, our expense ratio might have looked somewhat worse with the level of premium decline that we've seen over the past few years. So while we've seen the expense ratio tick-up by a few percent. I think there has been relatively resilient given the fluctuations in volume and it's entirely within the realms of what we would have expected. There have been some structural cost increases due to being a listed company, which (inaudible) times would have been swallowed up by premium increases which happen in the current situation.

On capital efficiency, It's really a question, we have seen an increase in our capital requirement throughout 2020 largely that's been driven by the revisions to the investment portfolio. So bonds coming in presenting spread risk and a slight increase in the term-risk on interest rates, all of which have been designed to increase yield to an acceptable but still address relatively low level. But at the same time not generating any actual increase in our view of what the downside risks might be upholding those investments. So that is a genuine one-off I suppose that will move around a bit depending whether we're in our outs of certain bonds, but generally we've taken the hit to our capital to put in that new investment portfolio in place other than that we might have expected capital requirements to shrink a little as we shrunk in size.

A - Geoff Carter {BIO 20756770 <GO>}

Thank you. Ivan, anything else, or is that okay?

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Thanks. That's it.

A - Geoff Carter {BIO 20756770 <GO>}

Thank you much. There's a question that's come through on the chat facility from Charlie Beeching with KBW. One is about what do we expect to happen to claims frequency pre and post COVID? Could there be an impact on customers driving more than previously as lockdown eases? I think this is exactly the big question. What does the new normal look like? At the moment for one to many better data. Whereas even the new normal looks like the old normal. Clearly, we'll be tracking that very closely as we see how lockdown loosens. There are theories that people might work from home one or two days a week that could have a decrease on frequency. There maybe more driving at weekends. There could be driver at different times of day. What James and Matt will be doing is tracking that data very closely and adjusting our pricing as we see reasons to move.

The second question here is the market impact. Do we expect any significant market consolidation as much as deteriorate. I think we know that some insurers and some distributors are having a tough time. We've seen some M&A already in the recent past. There may be some more to come. I think it's interesting if you look at the public companies like (inaudible) who presented very strong, very good companies, there are other companies out there who are not so well capitalized and maybe don't have the same sophistication. So I think it's wrong to judge the market just perhaps on add more direct line and that's probably non-standard approach to life so there could be impacts that come to --

Operator

Next question, Geoff, is from Ben Cohen.

A - Geoff Carter {BIO 20756770 <GO>}

Ben, hi. You're coming through --

Q - Benjamin Cohen {BIO 18668171 <GO>}

Yeah. Hi, there. Can you hear me?

A - Geoff Carter {BIO 20756770 <GO>}

We can.

Q - Benjamin Cohen {BIO 18668171 <GO>}

Yeah, good. I just wanted to go back to slide 12, please on the sort of the quote ability that you have. I just wondered to the extent that the sort of the further deterioration started this year implies that the market is even more competitive than it was through last year whether there's a sort of a year-on-year effect. And I suppose just more generally then, ass you start the year how much are your premiums actually down. I think there are some later slides that imply that the premiums are also down year-over-year and it is this simply capturing the lockdown impact? Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

Yeah sure. So net income we really happy to talk about the start of this year. In the full RNS, we've spoken about that we've had to run hard to maintain about 20% drop year-on-year. An important clarification is that's against a non COVID period. So the COVID impacts didn't really start to kick in until just around now last year. So we're comparing COVID period this year with a non-COVID period last year's. We're not really in the normal comparison period there. I think there is a risk of a really intense bit of almost a blood bath has been kicked off by people chosen volume. So some people have tried to hold out as they've lost more and more volume, I think other people are now having to try and compete to get some of that volume back. So their own portfolios don't shrunk too fast. We're in some ways might benefit from that. If some of the larger brokers need to maintain their own portfolios sizes when what I can see there being an intense period of competition through the very early part of this year as people start to play their price positions as COVID discounts on the need to try and maintain their portfolio size.

A - Adam Westwood {BIO 20481660 <GO>}

I think -- Geoff. I think it's a really good point Ben that if there are certain segments of the market where we're not seeing newcomers, for example, when you pick people driving tests are taking place. So we're not seeing new drivers to the market as just one example, that means that the pot is smaller and therefore, if even just a small part of the market is down, everyone chases the rest of it much harder and that's something that from our discipline pricing approach, we've not been prepared to do. So whilst in the short-term we stick to our knitting and the volume is lower, in the longer, I mean, it's not sustainable to continually chase volume at the cost of profit.

Q - Benjamin Cohen {BIO 18668171 <GO>}

Sorry. Can I ask us as a follow-up, Geoff, you mentioned that there would be competition to sort of position ahead of the FCA changes coming in. Could you explain that in the context of if company is sort of lock in on profitable business then is it not sort of unprofitable but forever. So how realistic is that as a scenario would you say?

A - Geoff Carter {BIO 20756770 <GO>}

Yeah, I think the way I've tried to rationalize this in my own mind if you believe that market prices, I'll make these numbers up slightly, are going to increase by 10% when the FCA price view comes in, if you can buy a policy this year and you have a lifetime value model of things, you can hold it into future years that may be cheaper than buying back their price comparison website next year. I think also some competitors have a profit model that's very dependent on non-underwriting profit. So for example claims income, so if you go into next year, to small, you only need -- they had to buy back the policies, you haven't got the claims income coming through at the same time. So I can understand the strategy. Something that executed well, I think someone. For us, it's irrelevant because that's not how we earn out. So we will stay disciplined as that potential turmoil goes on and as I think someone mentioned in the presentation last week, there will be some jockeying preposition as people work out where the appropriate new business and we know the price points are.

Q - Benjamin Cohen {BIO 18668171 <GO>}

Thank you very much. Thanks guys.

A - Geoff Carter {BIO 20756770 <GO>}

Thanks.

Operator

I still have a couple of hands raised. Next up is Tom Bateman.

A - Geoff Carter {BIO 20756770 <GO>}

Tom, hi.

Q - Thomas Bateman {BIO 21707516 <GO>}

Hi, good morning guys. Few questions for me. A couple on top-line. It's always come back to this topic. But yeah, I look back at last year's mostly comes down about (inaudible) how much can you catch up in 2021 as new drivers come back on, there is new car sales pick up. What's a -- how much of that can you realistically makeup? And I guess following on from that you talked about maybe you haven't lost opportunity in the non-standard rich part of market, but who are your competitors here? Who are writing these risks when you aren't essentially?

I'm going to slide it along here on that topic as well. But just on electric vehicles, obviously, new car sales are a part of your book given the increasing penetration of electric vehicles. How prepared are you to write more of that business? And just one final question on the SCR investment yield again, SCR is increasing because the market risk essentially. How do you look at the payoff between additional yield -- in the portfolio and the capital requirement there? Any numbers sort of would be helpful. Thank you.

A - Adam Westwood {BIO 20481660 <GO>}

First one, I think maybe it's worth you're going back to 2015 actually, which was the last sort of really hard part the market and who has been to the year I joined. I am joining and we couldn't quite fast enough to maintain the volume to, keep the volumes down at a level where we felt we could cope with the operation. So it's again what the growth was in that year. I think 20

A - Geoff Carter {BIO 20756770 <GO>}

I mean we would have had something like twinked up. We would have put in the region of 20 points on, I recall in March 16, we put over six points in a single month, so we felt that the growth was so much that we'd rather take the volume so that operationally -- guys could handle the claims volumes with the quality that they and the attention that they need, because we didn't want to compromise that kind of our ability to settle claims and I think it's important point that someone might be like say taking the business, but are they handling the claims in the same way that would -- I would challenge that as well. So if that business might well come back to us as things turn out.

I think Tom, I think that as we unquote, but I think -- making this up very slightly around half a million (inaudible) a week and we quote for all of them and we'll take any of them that generate our required margin. So there's no shortage of opportunity for us to write business in the market at all when the price points hit the right level. I think your next question was around electric vehicles. We're very happy about our electric vehicles. We write them at the moment. The claims are more complicated. Parts can be more expensive, but we're very happy with electric vehicles we do them at exactly the same margin than any other vehicle type that we write. I think you asked who's writing the risks. I think of course, it just goes after combination of other insurers. We don't really feel like we've lost lot of the non-standard business. Some of it's not been there.

So I'm personally very grateful to Kent Police for making for just (inaudible) letter from speeding mishap rather than making music through a speed awareness course. So I think you haven't had convictions coming on driving licenses. You haven't had new drivers. There's been less (inaudible) all the things that drive you back into the market as a Non-standard risk just haven't happened. So I don't think we've really lost anything in the non-standard area that I can see. And the last question was around SCR and a sort of payoffs that we think about?

A - Adam Westwood {BIO 20481660 <GO>}

Yeah, thanks. Yeah, I mean it -- I'm going to give you a fairly loose answer now but by all means we can dig into a little offline. In very broad strokes. We have taken capital -- because of the investment portfolio. We're now in their will be a payback period on that capital the payback period will be longer in the current circumstances than it might have been if bond yields overall were higher nonetheless, I guess spreads a factory into that as well.

I suppose because we've got a fairly open range of the capital in which we can operate. We're effectively just moved down in the capital range at no loss for the dividend available to shareholders if we were still a staunch at 140% mark then maybe we would be easing up on capital that would otherwise (inaudible) that there's a dividend so I could only question for us more as a team is whether after revised level of capital. After we've taken that hit with still comfortable that we've got enough and we are. That's it. We keep it under review. So, if we're not getting good value if we think the capital reviews done in moving into the investment portfolio that we've got, we will roll it back at the relatively little expense so it -- yeah, I'm not going to go into more of the math at this stage. But by all means I think we should keep it as a rolling dialogue with market.

Q - Thomas Bateman {BIO 21707516 <GO>}

Okay. Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

Thanks Tom.

Operator

Our next question is from Robert Murphy.

A - Geoff Carter {BIO 20756770 <GO>}

Good morning Robert.

Q - Robert Murphy {BIO 16621510 <GO>}

Yeah. Hi guys. Just going back to the one-off prior year reserving increase that you mentioned. Can you actually quantify what that was. I mean you sort of implying a couple of points? And also is that mainly related to one year sort of like 2019 probably looks like one of the worst developing years historically I don't know --

A - Geoff Carter {BIO 20756770 <GO>}

If you look at the headlines out you can put in the base on, if that's okay? So we really there's a few moving parts here. The first one is the care home cost increase which was -- as published on a periodic basis. Last one came out in November which is the (inaudible) index. I think it was talking about -- to 5.9% increase in care worker wages. That's impacted across all largest claims. PPO capitalization funding is sort of a thing that's particularly related to that in how we can have, how their insurance, capital ratios, capitalized some of those payments and I guess just James reflecting all that data through as its come to light, do you have sort of further new more detail around that?

A - James Ockenden {BIO 20485926 <GO>}

Well. Yeah. I think I think you've kind of covered it off Geoff. I think we did see in the second half it probably would comment on the relevance of COVID-19 in that sense. But we certainly have seen an increase in the expected in the cost of care by (inaudible) index, not only impacts all of the triangles on a net basis because it impacts on the larger losses. It also impacts as just said the view on APIs and potential capitalization claims. So that's essentially it I think Geoff summarize it quite nicely.

Q - Robert Murphy {BIO 16621510 <GO>}

Thanks and just a quick follow-up on the bond portfolio as well as it's not just credit risk you've increased also duration risk on that?

A - Geoff Carter {BIO 20756770 <GO>}

Adam.

A - Adam Westwood {BIO 20481660 <GO>}

I'll tell that one Geoff. There's a slight uptick in duration risk, although we're still pretty well matched against our insurance liabilities but it's largely spread.

Q - Robert Murphy {BIO 16621510 <GO>}

Thanks so much.

A - Geoff Carter {BIO 20756770 <GO>}

Thank you.

Operator

So second last question is from Faizan Lakhani.

A - Geoff Carter {BIO 20756770 <GO>}

Hi Faizan. Can you hear us? Hi, Goos morning. Hi ,your question there Faizan.

Operator

Faizan, if you just want to unmute yourself?

A - Geoff Carter {BIO 20756770 <GO>}

So Faizan got here -- Han could you move to the next question, so we can come back.

Operator

Sure. The next question will be Alex Evans.

A - Geoff Carter {BIO 20756770 <GO>}

Alex Evans? Okay (inaudible) said as well.

Operator

Sorry, Alex. You should come through now?

A - Geoff Carter {BIO 20756770 <GO>}

Hi Alex (inaudible) Can you unmute yourself?

Q - Alex Evans {BIO 20706796 <GO>}

Can you hear me?

A - Geoff Carter {BIO 20756770 <GO>}

We got. Loud and clear.

Q - Alex Evans {BIO 20706796 <GO>}

Perfect. And so thanks guys. So the first one is just on the rationality of the motor market that you're talking about, it seems to be the case that this year, at the start of this year at least that's continuing. I just wonder what's the catalyst for these insurers rationalizing some of the frequency benefits. Is it the road traffic going back to normal levels or do you think the lower quote volume and more aggressiveness of some insurers means that that's going to be beyond that? And then just secondly as well maybe just on the FCA review. It seems like quite a significant data request to the insurers and appreciate it won't affect you in the same way as others. But how long do you envisage it to take to implement the infrastructure and everything in place and looking at the time liner?

A - Geoff Carter {BIO 20756770 <GO>}

Sure. I mean in terms of irrationality of motor, I think I've worked and I've been looking at motor insurance for 30 years and it's been pretty much consistently (inaudible) all that time, I would say at some point. There's normally someone doing something irrational. I guess at the moment is probably being driven by a need to maintain top line. So we do have a reasonably flexible and variable cost base. So we are -- our mindset is absolutely focused on profit. I think a lot of insurers have a trade-off tight between and understand will try to put you in top line and profit. We don't do that. We were only focused on the bottom line. So I think probably the drivers want to do with that and with the FCA being such a radical change I do understand why some issuers might want to maintain portfolio size going into that the area. On the FCA data request, I've seen some amazing quote on how much it's going to cost to make this change. I'm pretty sure -- the data requests and a couple of those last time, we have all the data at hand. So we see my I think no real cost to effort in complying with that.

A - Adam Westwood {BIO 20481660 <GO>}

We think should relatively straightforward. So that you don't --

Q - Alex Evans {BIO 20706796 <GO>}

Yeah. Thank you very much.

Operator

So, let's see if we can get Faizan back for question.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Hi, can hear me now?

A - Geoff Carter {BIO 20756770 <GO>}

We can. Loud and clear. No issues. No problem.

Q - Faizan Lakhani {BIO 20034558 <GO>}

I just wanted to kick the tires on the pricing thesis. I mean if I may just take the opposite view for a second. It appears the markets of over and last year the COVID frequency benefits. Some of your peers have posted lower reserve releases than last year which may suggest that you had a marketing quite cautious. Now once that unwind , there may be a bit of gunpowder to kind of help any sort of weaker current year margins and even at with that reform is probably said to be slightly lower benefit. There are sort of two, three sort of I'd say big things pushing against harder or from a pricing market we know what you're sort of view on that?

And secondly in terms of claims inflation, your guidance has stayed pretty steady. Just want to compare it to you. One of your large peers Direct Line where they seems to operating at 5% to 6% claims inflation is that mainly due to business mix or is there an element of different views in terms of the drivers of the market or you'll get abilities? Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

Yeah sure and I guess on the pricing thesis it wouldn't be a market. If everyone had the same view at all the times. I suppose our view is and we've tried to outline this in some of the slides it -- when you're writing the policy you could look at claims experience within next 12 months not the current month you are writing that policy in I think that you are P&L could look quite good for the first 1quarter. Our concern is what were the claims cost look like for that policy across the life. James, would you like to add anything to that?

A - James Ockenden {BIO 20485926 <GO>}

I think it's a good question and fair challenge I think what we saw, what we said last year was, as you look at presentation slides, if you look at our volumes over time and you overlay that with the traffic volumes, it would appear that there is a significant correlation between our relative competitiveness and the traffic volumes. And as we've said that doesn't perfectly correlate to pricing and we have seen that last year. I think we went from being something like the month. April was 40% down year-on-year. And the month of June was 10% up year-on-year now, we took a strategic view on what we thought the pricing should be. And how -- when with that view. The traffic changed reasonably significantly and we saw that reasonably significant change in volume.

That would imply that there is a lot of irrational top-line driven irrational pricing in the market I would suggest and the fact that we have not been what's the word learning to chasing that I think sets us out as a differentiator and make no mistake as Geoff said that if we write a policy today, we have to take a view on what the what the claims, what exposure and what therefore the claims experience is going to be like, not just for not just for the month of March and April. It's going to be for the next 12 months and you really have to be confident if you've got a crystal ball with the future and then great, but if you haven't you got to take a sensible approach and I would argue that is feeding potential a rational pricing along with the fact that currently the P&L is a probably looking quite healthy. But I guess what I'm saying is once that was that business that you write today. If you've missed priced it when it starts to learn through, it really starts to buy it and we haven't been subjected to that because of our philosophy and our approach.

Q - Faizan Lakhani {BIO 20034558 <GO>}

The overview on which players have been overly aggressive or irrational. I mean you've seen, I do for example write a lot of business, but they seem too comfortable with it and deal with you in terms of where the pressure will come.

A - Geoff Carter {BIO 20756770 <GO>}

I don't think it's for us to comment on competitors on this stuff. I think it's important and we've mentioned a few times. It's important not to base a market if you want to add more direct line and us I think that's probably what we're tiny but I think had more than a third of the market. That's a lot of the market who don't report numbers publicly. So I think you shouldn't assume we're told say competitors we're not talking about just thought like that (inaudible) any stretch of the imagination.

I think an important point to make here is that if we have been too cautious. So if our assumptions are right, others have to catch up is our view. If we've been overly cautious and we're wrong. They're not arrogant enough to say we're right that means we've overfunded against that expectation and that because of the ability to reduce prices to get growth. So our assumption, scenario A is that we are right places need to catch up. Scenario B is we'll be over improvement which case we can reduce prices if we've over a same traffic.

A - Adam Westwood {BIO 20481660 <GO>}

And I think to add to that Geoff the balancing, the balancing item would be in the simplest terms if our margins 20% and we get and we decide we want that margin to be 19% a year. We get 5% of it away. We need to write at least 5% more business and we do see at certain point price points. We do see a greater level of elasticity and that's really where we're balancing

What we expect to happen going forward and the actual elasticity still in the market and making sure that we are kind of we are optimizing the absolute profit for our shareholders.

A - James Ockenden {BIO 20485926 <GO>}

Yeah, I think your second question Faizan down to claims inflation. So we are talking around 7 to 8. I think others have talked -- spoken already been somewhat over 5. The main difference could be around theft. I think it's fair to say forgot. We are prepared to write cars that are more prone to debt within that could have a slight uptick on our claims inflation compared to others. But probably in the region of a point also.

Geoff do you want to --

A - Geoff Carter {BIO 20756770 <GO>}

Yeah possibly and of course we look at inflation across a long period we're not just looking at it on a 12 month basis and I suspect that if you ask a bunch of claims directors or a bunch of actors, you'll come up with different views in terms of actually how they measure inflation, but it seems to us quite clear that this isn't a bottle that you can keep the cork in forever.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Yeah, thank you very much.

A - Geoff Carter {BIO 20756770 <GO>}

Thank you.

Operator

It doesn't seem like we've got any further questions. So no more raised hands, or open questions.

A - Geoff Carter {BIO 20756770 <GO>}

Okay, if anyone does have anything we are certainly here in happy to take any other questions. If not, thank you very much for your time today, very much appreciated. Hopefully, we've unpacked the result and our views on the future, and I know some of how to run off to another presentation. So, how could we give me a chance to do that? Thanks so much for your time.