S1 2021 Earnings Call

Company Participants

- Adam Westwood, Chief Financial Officer
- Geoff Carter, Chief Executive Officer
- Matt Wright, Chief Actuary
- Trevor Webb, Claims Director
- Unidentified Speaker

Other Participants

- Analyst

Presentation

Geoff Carter {BIO 20756770 <GO>}

Hi, good morning, everyone. Welcome to another series of virtual presentations. Certainly Sabre just done eight results calls since the IPO that we ended 2017 and exactly 50% of them during lockdown, which is when we haven't really realized.

Clearly common format, (inaudible). These are the presenters, one new face, Matt Wright, as you know has been promoted to Chief Actuary. Hanro will continue in this role as coordinator. Any issues related to technology breakdowns please do put that on the chat function and Hanro will sort it out. At the end we'll use the rise hand function for questions, Hanro although need to upload you to participants, there'll be a short delay before we turn on hear your question. We are as usual (inaudible) technical issues.

On the agenda, very similar approach to normal we'll look backwards of results and then give you our best insurance nerds view of where we think the market at today, and where we think market going.

So, financial highlights. It goes without saying it's been a pretty strange half year clearly a lot worse for other industries than us, but COVID has had a material impact on us. Volumes being relatively painful, mainly driven by why the UK factors which we'll discuss later by driving test car sales that type of thing. The claims have benefited from lower traffic. Overall, we're pretty pleased with the half-year performance. As we sit here today, we can see a continued reasonably bumpy to the short-term as we hopefully merge out of the soft market cycle, and the COVID impacts, but we're increasingly optimistic about the medium-term, and we'll talk more about our development efforts, and how we think the market will turn later.

To pick up on the few of the highlights. We've maintained our leading underwriting performance we believe, strong profitability in returns. COVID has impacted the slow return to car sales and the young driver impact has impacted volume. We continue to increase rates over the market, we are continuing to price within our normal price in total. Low claims frequency in H1 lower than anticipated in our pricing changes, which is why which is why we're seeing strong loss ratio performance.

Reserving position continues to be sensibly cautious to reflect the greater uncertainty and claims outcome, PI claims settlements are still slow because of relatively slow court processes. Interim different exactly in line with our corporate policy and continued strong capital generation.

On the operational highlights, our key focus will remain on high-quality pricing underwriting and claims management. As the COVID challenges start to fade slightly though, we are able to raise our sites and look at development and we're probably talking more about future developments in this session than we have in any other presentation that we've done. Some of the highlights here are that we continue to test new data and rating factors, we continue to find ways to exploit and building our own IP within our rating.

The van products being updated, the Saga relationship has gone live as planned. And importantly, we've now gone in place, a new front end IT cloud-based system that allows speedy and cost-effective launch of new product variants and we'll talk more about that as we go through this presentation. We've continued to support employees and customers through COVID-19. You mind, we haven't taken any government support nor have we furloughed any staff.

Having said that, the excess headcount claims has given us some short-term home to expense ratio, we believe maintaining staff is the right thing to do both the colleagues and for the business, this positions as well to be able to accommodate growth in future periods, which we do strongly, anticipate coming through.

We're very well positioned for the forthcoming regulatory challenges. We have no concerns about anything but anything that's coming up and we've largely completed all the work that's required for the host of things that are coming through. We've got the enhanced focus on ESG and Adam will touch more that in his section and the MOJ whiplash reforms have caused a bit of disruption if not chaos I would say, Trevor is going to present three or four slides on this later. So I won't steal your time, now, Trevor, I let you talk about what's happened after that.

Trevor Webb {BIO 21909270 <GO>}

So I think if we look backwards while COVID is clearly not had the same impact on us as (inaudible), it has had a major influence on our business. At the same time some other fundamental industry changes, looking into current pick up on a few of them, the COVID-19 restrictions materially shrunk ours and others addressable market. We know there's been fewer new drivers entering the market. There's an enormous backlog of driving tests. I know my daughter has driving test, target got until next January in Leighton Buzzard. I'm not even sure where Leighton Buzzard is quite frankly. So it's a desperate time for youngsters trying to get driving tests sorted out. Those lower, those drives those lower volumes haven't yet overwhelmed, so we're still seeing the pain of some of those things as we sit here today.

We believe some competitors have almost certainly chase that reduced volume within our view in correct prices, we have maintained our price of discipline through this. I think the true underlying impacts could be partially discussed with the next six to nine months by strong current year loss ratio performance across the industry. We've chosen, sorry, to maintain our pricing discipline on this industry the sense upon of between maintaining volume and maintaining our strong focus on profitability.

This is a graph that shows quite some all the past comparison websites. And if you look coming into the early part of this year, we've made fee bases on 2019, 2020 to all over the place to drop comparative numbers. Still significantly down as we came through so the first quarter into the second quarter here. And only modest growth coming through now, in the most recent weeks.

I think one upbeat note, if we look forward we are confident that organic growth will come through and our investment in our front-end systems capability over the last year or so will allow us to push much harder and I guess still help developments. So the price and discipline has left us very strongly positioned to capitalize on natural growth. We are going to have to earn through overall premium position for a period. We've got probably for the first time we're discussing new product launches in half, the second half of this year. We're going to be launching our new flexible insurance product under the DriveSmart brand that allows you to buy and sort by the hour, day, or week or up to a month. This is definitely a growing niche of people who want to ensure younger people tend to your parents cars, the temporary periods.

We think, we're not sure how, but I think it's moved it on massively in premium for the first periods, but it's definitely a niche we want to understand investigate and we'll able to play in as we move forward. We've got, Focus Machine Learning program underway where we invested and invest more heavily in machine learning and looking at how we can deploy those new rights into those distribution groups. So we're pretty optimistic that the combination of market strengthening, and a developments efforts will be well-placed to grow into the medium term.

Look even further forwards, electronic vehicles, electric vehicles. We already enjoy electric vehicles and we also ensure other proportion methods like hydrogen fuel cell vehicles which Matt spoken about less. Importantly, how we pay a network is keeping track of that and 93% of our network have started a qualified in new electric vehicles. So, we're confident that we can write them profitably and we pair them roughly at the same time.

This is the volume position. So we have seen good recovery since the end of Q1 we've grown by just under 3%. Since Q1 grew consistently if modestly on a weekly basis. I guess importantly, we also track our competitiveness on the breaker panels where we play so that is how often are we achieve this price growth can find and how often are we the policy that eventually gets sold

In recent weeks, we've seen our competitive position that was how often where cheapest increase of about 5% to 8% but our sales here was more than doubled. So, we've gone from about 3% to 6 % share of the sales that some of our larger brokers are making, so good signs within that market that we think there's a light coming through to improve our competitive position.

On the premium pack body, the impacts of COVID on the premium side, I think an important point here is that expecting claims like it's happening past back to customer certainly by ourselves and I suspect by most of the, the market. Currently traffic is back to effectively 100% with the old normal. We're seeing some slight differences, van is slightly higher car is still slightly lower. Premium reminds down due to the lack of young drivers we've mentioned. And the bounce-back in volume have been slower than we might have expected. But we are seeing some signs of recovery.

On the client side, the short -- have been short term benefits, the claims frequency has been much lower than we expected, debt hasn't been that much the same proportion, balance in this larger PI claims are still slow. The courts are still slow to get through some of these cases. And I guess, the last point here is really important, which is the net impact of what will increase work from home look like, different traffic density, potentially higher severity, because of higher speed traffic. What is that going to look like? And that's going to take some time to normalize. So we are deliberately trading quite a cautious path through this to ensure we don't lose control of the portfolio. We don't want to boom-and-bust there's no point growing rapidly and then taking the paint for that in very unattractive losses in future years.

This is a very important slide which has been in our last couple of presentations. We've been very open in the softer market because we've been writing towards the top end of our pricing corridor. So we would expect all things being equal, our combined ratio to sort of start to move slightly to the right. As we got to 2022, we'll be taking decisions we hope on whether we should take more margin or more volume or what the optimum position is between those two positions. At that point, I think I can put (inaudible) and Adam I think you're going to grab control of the screen and talk through the financial results.

Adam Westwood {BIO 20481660 <GO>}

Yeah. Thanks, Geoff. I think I've managed to rest of control of the slides. There we go. So hi everyone. Thanks for joining us, remotely this morning. Right, let's talk through the financial highlights for H1 2021. Also throw a result focusing on premiums claims experience, expenses, and of course the dividend. So, here we are. Headline premium at GBP78.2 million is down on 2020 which reflects the continued pressure on the top line during the first half. Geoff has already explained how market conditions have contributed to us giving up income in order to maintain profitability as far as possible during a significant temporary reduction in the size of our addressable market.

Our combined operating ratio was just under 75%, which reflects similar dynamics since 2020 full year with a strong loss ratio being somewhat offset by a relatively high expense ratio, mainly driven by that pressure on the top line. Investment return GBP0.6 million continues to reflect the long term yield across the portfolio. Profit before tax of course that GBP22.2 million remains primarily a function of our premier income and the combined ratio. With a decrease in earned premium and a slight uptick in combined ratio follows that profit is down in 2021, verses H1 2020, which consequently increase through into our earnings per share as you can see here.

We remain in a very strong capital position and therefore declared an interim dividend of 3.7 pence per share in line with our corporate policy. After the payment of the dividend our year insolvency coverage ratio remains at a very comfortable, 168% -- 169%, sorry.

So moving on to the next Slide, which drills down into our combined ratio versus the full year 2020. We can see that a very strong loss ratio has been somewhat offset by a relatively high expense ratio for the same period. The headline figures, our loss ratios down to 44.9% while our expense ratios up to 29.5%. Also if you the loss ratio first before digging into the expense ratio. We can split this into the cost recorded in respect of accidents in 2021, which is our current year loss ratio. Movements on our estimated, or actual 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 50.7% versus 55.4% for H1 2020 and 51.2% for the full year 2020. Well, the current year loss ratio can be volatile particular across the short period. This is indicative that claims experience during the period has benefited from lower levels of traffic, despite discounted policy learning through. There are two things happening here. One while we discounted policies to reflect expected claims frequency over the lines for each policy risen, the length and severity of the third lockdown was greater than anticipated. And the current year loss ratio will show a lockdown frequency benefit in H1, but potentially a higher ratio in H2 to average out at our target loss ratio. Both of which means that we will likely see an increase in the current year loss ratio in the second half of this year, notwithstanding the normal levels of volatility.

Our reserve position continues to reflect our consistent long-term methodology and allows for increased volatility on the latest claims. We continue to see relatively slow settlement of personal injury claims, which of course is also reflected within our reserves. The prior-year loss ratio benefit is in line with our expectation of long run -- run off of around 5.8%, this compares to a benefit of 2.6% full year 2020. We previously said that we might expect a return to normal prior reserve benefit around 45% a year, which regards here affect the runoff of risk marginal open claims. So those multiple in line with that. Right. Onto our expense ratio, which increased year-on-year to 29.5%.

So this next slide shows a bridge between that full year 2020 and the HY 2021 position. We've commented on the previous year's that pressure on expenses comment from industry levies increased all-in costs and the costs of running a PLC to name a few. One of those costs remain high, they've not increased significantly since the full year 2020, so don't form significant part of this bridge. In fact, we're continuing to reduce operating costs throughout the business. Although that's, of course, offset by normal inflation on recurring expenditure. Instead of the main increase in costs of come from inflation wage increases. We've continued to maintain our operational capacity in the strong expectation will recover our policy count in the near future.

We remain forward-looking and careful to manage the risk of overwhelming our operations should growth come quickly as it has done in the past. The main driver, as you can see here at the increase in our expense ratio is therefore the reduction in our income. While we do have a considerable variable element of our costs, a temporary different premium will always have an adverse effect on our expense ratio as it has through, it has done in H1.

This next slide shows our allocation we invested our sales at the period end. During the year, we continue to step carefully into a more diversified, but still very low risk portfolio of assets. The highly rated corporate and government backed bonds perform well during the year with no significant down rates or losses. Our strategy centers on capital preservation still, while attempting to earn a reasonable yield on low risk assets. Because we generally hold all our assets in maturity. The amount recognized in the profit is the effective interest on those assets which is reflective of the yield to maturity. Short-term market value fluctuations then come through below the line.

On the dividend, so our corporate policy as we've said previously is to pay a dividend at the interim stage calculated as one-third of the prior year ordinary dividend. So mechanical looking back as based on last year this time around is 3.7 pence per share, which we're very happy to pay given the level of capital post dividend is a very comfortable 169%. Overall approach continues to be to return excess capital to shareholders with that excess being defined with reference to our current circumstances, while keeping the post year-end capital in the 140% to 160% range.

This interim dividend does leave us with a very strong capital position post dividend. We will, as always review the capital position at year-end distribute any excess capital is appropriate at that time. This next slide is one you'll be familiar with having shown a few times in the past, which shows our capital position over time. As you can see, we remain very 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 capital available to fund a dividend and paying that dividend. We still continue to aim to hold post-dividend period-end capital 140% to 160% range.

But on climate we recognize the climate rightly as a huge area of focus for company's investors, while operationally we are a very small business, we're still giving to significant bought our impact on the environment and the impact of the change in climate on us. For corporate purpose is to provide fairly priced motor insurance to everyone that means we'll never penalize those you can't afford electric vehicles by setting different, differential prices because depending on their environmental impact. But we will however continue to provide fair color broadcasts, which utilize new and emerging technologies that Geoff already discussed as we've always done.

We're stepping up our efforts this year both in terms of our impact and in terms of the disclosure that we put in our accounts, with some external help, we intend to build our carbon neutral roadmap and increase our level of disclosure before our year end results. And with that, it's back to you. Geoff, thank you.

Geoff Carter {BIO 20756770 <GO>}

Thank you. Let me get control of the screen. Just one second. Okay. And as we can now put in some market concept and particularly focus on to two bridges. This is the Slide you've seen many times before, it's how we grow and shrink through the insurance cycle. I would say that COVID has extended the normal cycle via around 12 months to 18 months, we would have predicted this turn as we came into 2020. And indeed, we think there was strong evidence that did happen.

We were seeing right go on as we discussed last time in Q1 2020, that reversed in the first lockdown kicked in. Since then they've been I guess fits and starts attempt to increase rates and lockdown the start of the slot. There is a risk that claims frequency benefits that COVID do blame some competitors the underlying position, all our rates, they hold for slightly longer.

We firmly believe that for many competitors' rates need to adjust very sharply upwards in the foreseeable future. One of the large consultancies in the annual results reviewing is predicting 2020 position of around 110% combined. That's pretty a much about it was in 2010, and that's a pretty ugly picture for the industry overall, we don't intend to let that happen to us.

I guess, I can't view is, there's differentiated strategies amongst competitors. Some are still want a bit of a land grab, (inaudible) and some are trying hard to push prices now, we know again, for some of the feedback we get from our brokers, some insurers are now decided that's enough, and I just put them on operate on them to protect themselves in future years. Others, sort of know they're driving towards a brick wall, but you put the price up, the volume goes down instantly. So, I think some competitors are still stuck in the usual trick, but knowing what you need to do, but you can't -- because the volume impact is too severe.

So there's clear signs of pain being filled in underwriters and brokers building pressure from a significant rate increases feels like the -- can still be shaping but that it's not just yet. There's been some on the headlines around this. I don't think anyone's going to be surprise that prices need to worry about. These are our usual weighing scales that we now put in on whether price you should be going up or down in the market. The inflation factors are exactly the same as the ones we outlined the full year.

On the deflation factors, we think at best modest whiplash reform benefits certainly there's some GBP30 and an element here of what will happen to work from home traffic density as COVID impacts unwind. The wage inflation is still consistent, I think is coming through is wage inflation we are saying that had the feature that does impact large claims cost and potentially reinsurance recovery position. Might be a blip, and then we know that perhaps some lower earlier people are not currently in the employment market. So we'll see whether this is a blip or that becomes a long-term trend.

This is the sort of context, you put it into the full year and we've traffic lighting what we think has happened. What hasn't happened so far? So we think the market will be has reflected the appropriate level of whiplash discussed with you. We have -- we've unwound the residual amount of COVID benefits that's assuming there's no future lockdowns to come. Probably not everyone is fully unwound yet. What hasn't happened is the quote volumes increased that we saw in 2020, as a significant bounce back after lockdown, we haven't yet seen the market pricing correction. And I suspect we still haven't seen the full impact of the FCA pricing review.

So some things are happening in, some things are happening slowly, some things I think is still likely to happen before the end of this year or possibly even in 2022. We're going to give you some detailed on of the more fundamental changes. The first one is the FCA pricing review which I suspect most people are pretty close with. This was our read at the sort of final rules, go in line with industry expectations. Non cash equivalents can't be used to disguise price walk in that reading is vouchers hopefully that takes away the rest of the customers being showered with shopping vouchers the disguise the underlying price.

Stricter rules on back book or transferring books are clearly anti-avoidance is going to be a key focus of the FCA. APR being included. Generally, we think these are sensible rules, none of these calls us any concern as we don't do financial parts, anyway, and we are very comfortable we can accommodate the reporting and the various rules that are there. At this point, I am going to hand out to Trevor. He's going to come up here and he's going to talk about the claims reports.

Trevor Webb {BIO 21909270 <GO>}

Right. So, good morning, all. We thought it would be relevant just to sort of describe where we are on week 9, after the launch of the Whiplash reforms because this was certainly call out in terms of premium being expressed. So quick recap this is for accidents, which occur on or after the 31st of May for the adult occupants of the vehicle and that is also subject to a number of exclusions applies to claims with a value of up to GBP10,000 in total where the personal injury element is worth no more than GBP5,000.

The idea of this official injury claim service, or OIC as we call it is that climates can self-manage their claim through a portal and don't need to be represented by solicitor. They can take representation and the solicitor in the absence of any sort of legal expense product, cover them will take a cut of the compensation. So very similar to sort of the PPI model that most of us will be familiar with.

Whiplash claims in fact injuries to the neck, back and shoulder only with less than a two year prognosis and a very valued now in accordance with the tariff system, which is set down by law. Other injuries, so injuries in in addition to a whiplash valued by reference to the Judicial College Guidelines, which has been with us for quite some time. The claimant can say, that their circumstances are exceptional, their injury is exceptional and argue for an uplift in relation to that tariff injury by up to 20%. Importantly, for claims within these financial limits, there are no legal costs recoverable, but in the event that the case needs to go to court for some sort of arbitration court fees are payable and recoverable is successful.

So Geoff, thank you. So there is a significant technology bill for this portal, code was even dropped on the day before or within hours of go live. We believe that many of the law firms and potentially some of the insurers were unprepared, we're ready, and we're still seeing ongoing developments in terms of the technology built here. Claims that we've received since 31st of May is suppressed. What we don't know is, how many claims haven't been capable of being presented because the technology barriers. So, I would say that, only yesterday, we received our first claim from one of the big law firms that we know had technology problems. So that's certainly an example of where claim volumes are suppressed, but we don't yet know what the new normal is going to look like.

Whilst this has been built for unrepresented claimants, the vast majority of claims that we've received coming from law firms with a really a de minimis proportional coming from unrepresented claimants. And that maybe because of the complexity, there's a guide to making a claim that runs to 64 pages and the pre-action protocols that describe the processes run to another 102 pages. And if there's a claimant, you want to go to court for various different reasons, there are 10 different processes, each attracting fees.

Whilst the signaling is for claimants in person, this is a process to get up to adopt, it's not without problems. So what are we seeing? We're seeing an increase in turnover or a proportion of claims where there's an on Whiplash injury and for some legal firms, a 100% of their clients have an injury in addition to the Whiplash. Again for some firms a 100% of their claimants got associated psychiatric injuries when these claims have been presented. And believe it or not, 75% of the claims of being to be exceptional in one way or another which clearly is not exceptional.

So, all three of those will be strategies to increase the level of damages that are recoverable and an effort to get the claim over that GBP5,000 or GBP10,000 limit. We haven't yet seen any medical reports. So what we don't yet know is how layering of treatment and other costs are going to be progressed but we anticipate that activity will take place. Certainly in the early days we were seeing some strange behaviors so people using do not reply email domains. It's necessary to sign off for submitted claim with a statement of truth will take seven of truth was being signed by the system run by an individual.

Claimants using the old portal where costs are recoverable. We don't know whether that was through poor education or just an expectation that we might miss it. And then perhaps most tellingly I'll counter-fraud team busy with these cases, which would suggest that the due diligence that claimant firms are putting into their efforts of avoiding sort of Trojan horsing, some potentially fraudulent claims through may not be as vigorous as they were in the past. So it's something that we're actually putting a lot of effort into in terms of that upfront activity around additional counter-fraud for checks on these claims.

So, I guess that's sort of an early site of what we're seeing, but at the moment, it's still very early, will these savings come through again, still very early to predict. Thanks Geoff.

Geoff Carter {BIO 20756770 <GO>}

Thanks, Trevor. So final Slide a summary. So I guess the key thing is that we are remaining resolute focus on our long-term. And what is that the strategy, we are going to continue to prioritize underwriting discipline and profitability on volume and we are centered on a long-term mid-70s COR, but we wouldn't be surprised to see that move slightly up through this year.

We have seen evidence of growth emerging as we're going to Q2, I think you may be getting the benefit that the first early parts and tailwinds in the market, we do anticipate much more significant tailwinds as we go into later 2021 and into 2022. We discuss the COR, there is I think we should stress increased uncertainty on claims course in H2 we don't know exactly how traffic volumes are going to move. We don't know how will impact. We don't know if less traffic involves higher speed, high-severity claims and we haven't yet seen what the emerging whiplash impacts.

So there are definitely more uncertainty than normal, our crystal ball is slightly murkier than normal perhaps in terms of looking out towards the end of the year, and the early part of next year. But we are confident on, is that, our pricing discipline has avoided any risk of boom and bust showing growth now (inaudible) and on a very strong foundation, we do expect me to take advantage of anticipated market price turn driven organic growth opportunities with a lot more focus on self-help, and new product developments, and we now have the capability to roll that out pretty quickly.

And we are very committed to use in our capital range to support an attractive dividend while we earn through the software parts of the market. So I guess, in lots of ways, similar messages to previous presentations, probably there with a slightly stronger focus on our ability to going through non-market term driven elements.

Now at that point, I think, we're going to pause, I'm going to hand back to Hanro, who is going to look for any raised hands for questions, he'll then announce you and promote you to a panelist effectively. So there might just be a few seconds gap between him calling you and (inaudible). Hanro back to you, if that's okay?

Questions And Answers

Operator

(Question And Answer)

A - Unidentified Speaker

Thanks, Geoff. Currently, we don't have any written questions. But our first question is from Thomas Bateman. So Thomas, I'm just going to allow you to speak?

Q - Analyst

Hi. Good morning. Can you hear me?

A - Unidentified Speaker

We have loud and clear

Q - Analyst

Hi, Geoff. How you're doing? Thanks the presentation, as always, pretty interesting from you guys any insight into the market. And the question is on the guidance, so the 70% to 80% combined ratio guidance. Appreciate you meeting this year will be sort of top end, however, in my mind the guidance is looking like a real stretch for 2022 given the trend in the expense ratio and reserve releases. And I think the consensus forecasting 75% combined ratio next year seems quite unlikely, for it to normalize this year for COVID would be probably above 80%. So, could you just give me sort of your expectations for next year and what do you think about the current guidance?

A - Geoff Carter {BIO 20756770 <GO>}

Yes, sure. Adam, you want to take that one?

A - Adam Westwood {BIO 20481660 <GO>}

Yeah, sure. I obviously, I can talk a little bit more clearly about H2 this year, and then as you move into '22 it becomes a little bit harder to forecast. I suppose, I would think about it like this, before we went into the first lockdown back in last year in 2020, we were writing towards the top end of our combined operating ratio range required to open that in a softer part of the market, as Geoff's already said, that's where we would generally move to. And therefore, understand the reason that at some point had there not been any lockdowns, we would have been recalling combined ratios in that area, so notwithstanding any priorities that might have come through and obscured that.

As lockdowns fall away, we effectively return to that position, which means that potentially H2 this year should -- would show a higher combined ratio at the top end of that range, which then obviously would be 2021 results. 2022 is a slightly more difficult one to call because market dynamics could mean that we can put prices through, which would bring that combined ratio on our written business down, or it might mean that effectively it just supports our inflationary increases and we would normally be careful not to bring our volume down too far, obviously doesn't impact our expense ratio there. So, I guess our base case thinking is that next year's combined ratio will be higher than this year's combined ratio, stands to reason if we don't have any lockdowns then that would be the case. But there are opportunities to bring that back down as well. Nonetheless, I think I would guide cautiously to potentially being higher than this year next year.

Q - Analyst

That's really helpful. Thank you. And sorry, just one other quick question, just on pricing. I guess I'm a little bit confused, and you gave some quite a guidance that you've grown the book and your competitiveness has increased, that's quite positive for me in terms of rating of price in the market. But then you've got a damning description of something or sort of walking into a brick wall, because they don't want to give up volume. I don't know, what's your best guess of what's happened to pricing over the last few months and maybe what we can expect the rest of the year?

A - Adam Westwood {BIO 20481660 <GO>}

I think, overall, it's been pretty flat in most parts of the market. I suspect we are in a slightly different part of the market to -- the core mass-market enjoys, and maybe we're seeing the early signs of that come through in our partner markets likely quicker. It could be some people will start writing some of that noise in the business, it's hard to say. All we can really say with confidence is what we've done, and the output for that is we've definitely seen our competitiveness improve slightly.

I think it's always a little dangerous to think about the market as being the listed players, we're not really in the same game as (inaudible). I think now between those guys are probably than less than a third of the market. So you've got a lot of the market is like the ice berg, below the waves, and they're not going to have the same capabilities and in some instances they're not going to be as strongly capped, plus they won't have the same reserve releases from previous years. So, I do think it's important to think about the two-thirds of the market that doesn't get the same visibility and the pain that might be suffered there.

Q - Analyst

Thank you. It's very helpful, Geoff.

A - Geoff Carter {BIO 20756770 <GO>}

Thanks Tom.

Operator

Our next question is from Ming Tzu [ph].

Q - Analyst

Hi. Thank you for taking my question. My first question is around their competition. Could you just give some color in terms of have you seen any Hauser [ph] and competition change in the non-standard market? And for example, (inaudible) is an entry in the market soon. And second is your claims information, is that still sort of in that 7.5%, 8% range, could you just give some update on that, please? And the my third question is, how much price increase do you need in terms of the market you write do you need for you to go back to their 75% or better combined ratio? Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

Okay, sure, I'll take the first one, and maybe Adam could pick up the other ones. I think in terms of non-standard, we're not really seeing any change. Clearly, there has been talk around the new entrant with (inaudible) with another guy. I don't believe they're necessarily targeting the non-standard business. It's important to realize that within their business, they already have complete cover and (inaudible), who've been very active in the non-standard market, probably the more non-standard market, and has in fact for quite some time. So, I wouldn't overly focus on only one competitor. I guess, Adam, do you want to talk about the price inflation question that was asked?

A - Adam Westwood {BIO 20481660 <GO>}

Yes. So, we're still seeing the price inflation similar to what we were seeing at year end. I think as Jeff mentioned earlier, we're also seeing the wage inflation (inaudible) remained high, we're not on that (inaudible) injury claim cost.

A - Geoff Carter {BIO 20756770 <GO>}

Yeah. And the third question Adam is really around, what price increase you need to get back to 75%?

A - Adam Westwood {BIO 20481660 <GO>}

Yeah. I guess, without saying exactly where pricing is now, it's hard to say exactly what we need to put on to get 75%. But if we were at 80% we won't have put it on not 5%, it doesn't work quite like that, but that's the sort of ballpark. I suppose the way to think about is that we still think inflation is at the 7.5% to 8% range, so we want to put on 0.5% a month or a bit more 1%, to match claims inflation. We would want to put on more than that to get that combined operating ratio down, if that's what we wanted to do, and it really is a case of whatever the market can support, taking into account the impact on top line sort of as well.

A - Geoff Carter {BIO 20756770 <GO>}

Did I answer the question?

A - Unidentified Speaker

Okay. (Inaudible)

A - Geoff Carter {BIO 20756770 <GO>}

We have two questions that have come in from the chat function, so I just maybe deal with those briefly. The first question is on, the majority of listed players (inaudible) stay disciplined then put their rates. Can you provide any perspective on which players are putting downward pressures on like any perspective on which players have started to put through raising prices?

I think a lot of the list of the listed companies would have stayed disciplined, I think there are different strategies ahead of the FCA pricing the firms, which may differ -- may drive different behaviors. I guess the perspective one who's put through rate increases, we don't get that detail from our conversations with the brokers, they tell us about the overall theme of what's going on with rates and they won't name names. If I was to guess, I would say, typically if I look back at previous cycles, it tends to be companies that aren't 100%

dependent on motor, they'll move first because their main profit is not a part of the business and logically why would you burn profit in motor if you could make money elsewhere. So, that's been my theory for the last couple of years, and I would be surprised if that doesn't come true.

The other question is one for you, Trevor. Can you help quantify what the impact of the slowdown in PI claims are? And can we expect bigger reserve releases over the next couple of years?

A - Trevor Webb {BIO 21909270 <GO>}

Yeah . Thanks, Geoff. From a case reserve perspective, yes, absolutely, we would expect case reserves to come off as these claims settle. And just to give you some sort of context or color around what we're saying is, some claims need to be approved by the court as a settlement, so those are taking time to settle.

It is on the -- both on the large claims side and on the smaller claims side where there are disputes over the liability or quantum. So yeah, absolutely, as that certainty comes through from the court determination, then case reserves would come off. In terms of how that thing gets adjusted through the IBNER, Matt might want to add to this, but clearly where we've got less settlement -- certainty than we would have had in the past, Matt will need to be reflecting that in terms of the IBNER calculations that he undertakes.

A - Matt Wright {BIO 19297719 <GO>}

Yeah, that's great. I don't really expect much bigger though. It's yeah -- we have some -- we have to take into account, what we think that (inaudible)

A - Adam Westwood {BIO 20481660 <GO>}

That's right. Perhaps the way to think about it is that we obviously adjust our open case reserves for what we expect the ultimate settlement to be when it comes to the actuarial calculation at the period end. I suppose that actual settlement is somewhat obscured the more open claims you have or if the settlement pattern changes it's harder to predict. Where they're going to fall, so it might be that you pulled a little bit more in that reserve to reflect that. I certainly wouldn't go as far as to say we're expecting sort of bumper reserve release as a result of these things starting to settle, and we might flip with that clarity, it might yield something but I certainly would make that in any serious main training models moment.

A - Geoff Carter {BIO 20756770 <GO>}

Thank you, Adam. Hello, anything else.

A - Unidentified Speaker

Yeah, we have a couple of raise the hands. So the next person I will allow to speak is Greg Patterson.

Q - Analyst

Morning gentlemen. Can you hear me?

A - Geoff Carter {BIO 20756770 <GO>}

Loud and clear, Graig, as ever,

Q - Analyst

Just three quick questions, numbers one. Just in terms of year-on-year rate increases, what did you achieve on average in the second quarter? And how does that compare with July? That's my first question. The second question is on underlying claims inflation of 7.5% to 8%, what would the year-on-year inflation be if you added back the frequency benefits in the second half of last year? I'm obviously trying to work towards a loss ratio waterfall, so basically how -- what were the percentage points frequency benefits into H1?

And the third thing is, in the 7.5% to 8% inflation, underlying for the second half, are you -- does that include the IBNER for the delay in replenished claims due to IT issues on the portal? In other words, is there we are -- do we expect a few extra points year-on-year in the second half as IT issues get resolved?

A - Geoff Carter {BIO 20756770 <GO>}

Sure. Thank you, Graig. So, on the first, on the year-on-year rate increase, I think this is a really difficult number to think over the last 12 months, because we've had various periods where rates have gone up and down, to reflect various lockdowns, I think it's pretty difficult to give at the straightforward answer on that one. What I think we can say is that at all times we have made sure we stayed within our 75% to 80% rating corridor, looking forward from each month reflecting the lightly claims cost from profit underline, claims inflation, whilst allowing for the potential reduction that happened through that particular lockdown? Matt, is there anything you want to say on that one?

A - Matt Wright {BIO 19297719 <GO>}

No Geoff, you've covered it off quite well. But yeah, with lockdowns it comes quite messy looking year-on-year. But yeah, the aim is to cover long-term inflation.

A - Adam Westwood {BIO 20481660 <GO>}

So Graig, (inaudible) giving a very easy number one, this one, (inaudible) , useful and sort of more detailed. I think it's difficult to give a headline number on that one year-on-year, because it depends on what period (inaudible).

The second one was around underlying claims inflation, and what within the year-on-year inflation number is, I think that's the question I got there. Matt, did you want to say anything on that one?

A - Matt Wright {BIO 19297719 <GO>}

Again, I think it's made quite -- it's quite hard to see with the time of COVID lockdowns changing frequency, the guide could be traffic volumes and I can't as exposure was on the route.

Q - Analyst

Can you hear me?

A - Geoff Carter {BIO 20756770 <GO>}

We can. Yeah.

Q - Analyst

Yeah, I'm just trying, in the loss ratio in the second half of last year, what was the frequency benefit from COVID in terms of percentage points? That's really what I'm trying to get.

A - Geoff Carter {BIO 20756770 <GO>}

Matt, you have better handle for that one (inaudible)

A - Matt Wright {BIO 19297719 <GO>}

We'll come back to you, if that's okay, after the call.

Q - Analyst

And then just what is the 7% to 8%, let's assume in addition to the two factors that you have just been maintained before, is that 7.5% To 8% inclusive of any pickup in whiplash claims as the IT issues at the claims, the lawyers and the claim management companies, get resolved?

A - Geoff Carter {BIO 20756770 <GO>}

I think we can say that we have tried to allow for that uncertainty, so we are publishing number within the expectation can they get significantly worse, but try to align max work within the right size number will be coming through that.

Q - Analyst

Cool. Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

Okay. We'll come back with other points after this call.

Q - Analyst

Thank you.

Operator

Next question is coming from Nick Johnson.

Q - Analyst

Hello, everybody.

A - Geoff Carter {BIO 20756770 <GO>}

Hi.

Q - Analyst

Two questions, please. The first is on the growth outlook. You're fairly optimistic again, just wondering if you could perhaps sort of elaborate a bit on how much of the premium growth that you hope will come through -- will start to come through over the next 18 months, how much of that is contingent on recovery in car transactions and new drivers? And how much of that growth depends on price rises in the market? I know it's difficult to say, but any thoughts that you can give around the relative importance of both those issues would be helpful. And the second question is on reinsurance cost, just wondered what you're seeing on reinsurance rates and whether reinsurance rates are reflecting lower claims frequency in the market? Thanks.

A - Geoff Carter {BIO 20756770 <GO>}

I'll start on the first one. It's hard to say exactly. I think my instinct is that the majority of this will come from price rises in the market. So I think the thing are interrelated, so if there's low claims volumes available in the market, people are more inclined to keep rates lower for longer to write the share of that reduced market. So, I think that has probably been what's held back some of the price increases over the last few months, and included in that will be a downward pressure on rates increasing if people are still needing to chase volume in less volatile market. So, I think the majority will polygon from price rises, but car transactions, driving tests, other things coming back to life will be something that drives those price changes.

On the reinsurance side, I think an interesting point I'll add about the numbers is that the ongoing discount rate is crawling back out of the box. I think it's fair to say in terms of conversations around here, and that we know that the next discount rate we did, Trevor, I think it was June 2024?

A - Trevor Webb {BIO 21909270 <GO>}

Yeah. So, I guess if I pick this up, Geoff, the frequency issues, so the lives loss frequency issue isn't necessarily linked to overall frequency. So, higher speeds traffic has given rise to some more severe accidents. There is the discount rate, it's already gone up in Northern Ireland or gone down, so there's been some pressure coming through there and there's some outlook that the discount rate, if it was set again today in England and Wales, would deteriorate from where it was today.

And then, I think, the third thing is, because primary rates have been down across the market, reinsurance rates (inaudible) same income needs to be putting their rates up, many reinsurance will look at this on a price per vehicle basis. So, there's certainly pressure on the reinsurance on the reinsurance side.

Q - Analyst

Yeah. And to help everyone with their models, what that means for us is that there are insurance renewal 1st of July was a high single digit relative increase on where it was last time around, which was -- correct me if I'm wrong, Geoff, but pretty commensurate with the market rate increases on the reinsurance side?

A - Geoff Carter {BIO 20756770 <GO>}

We believe so, and potentially would be sort of the forthcoming renewals sort of towards the end of this year could be pretty tough.

Q - Analyst

Yeah. That's very helpful. Thanks very much indeed. Thanks.

A - Geoff Carter {BIO 20756770 <GO>}

Thank you.

Operator

To your hand remaining and then two in the written submissions, so we'll just go to Alexander Evans next.

Q - Analyst

Hi guys, can hear me?

A - Geoff Carter {BIO 20756770 <GO>}

We can.

Q - Analyst

Perfect. Thanks. Just a quick one following up on the reserve releases going. You tend to have a little bit of a seasonality, so is 1H is a little bit greater than 2H? So, is it fair to assume that 2H is going to be a bit muted on that respect? And then maybe just in terms of that sort of 4.5% to 5%, how do you view the impact of the sort of delay in claims settling on 1H? Should we expect a little bit lower seasonality if there's a sort of increase in settling in the second half?

A - Geoff Carter {BIO 20756770 <GO>}

Sure. Adam, do you want to take it?

A - Adam Westwood {BIO 20481660 <GO>}

I'll take the sort of seasonality point, which is that typically, yes, the first half does somewhat flatter the prior year in favor over the current year, that's purely because there's more development related to the prior year than the current year, because it's only six months in the current year at that point. It's hard to extract exactly what the impact of that is. Looking back over time, obviously, the prior year reserve release has been very, very bumpy. Clearly, last year we had a big sort of prior year reserve release in the first half, and a very small one in the second half. But the scale of that difference wasn't really driven by seasonality more, by stuff that happened in the second half of the year, which led us to watch through claims which otherwise wouldn't have been there.

So, I wouldn't over state the impact of the seasonality that something there, that's probably why we are at sort of 5% or 6% rather than the 4% or 5% for this first half for example. But it's relatively hard to call, and that's probably the best answer I can give on that one.

Q - Analyst

Okay. Thanks.

A - Geoff Carter {BIO 20756770 <GO>}

So, does that answer most of your questions, Alex?

Q - Analyst

Yeah. Maybe just on the claim settling perspective, has that sort of impacted the first half on reserve releases and if we sort of return to normal in the second half, maybe that's slightly positive?

A - Geoff Carter {BIO 20756770 <GO>}

I think potentially sort of referring back to my previous comment on claims settlement patterns, we've tried to take a best view as to how those will resolve themselves and record that in our current reserves. So, it really depends on when these claims start to settle if they settle, similarly to what we've seen in the past or if they settle higher than obviously that's a different conversation entirely. So, I won't go as far as to say, we've got claims settling slower therefore we're definitely going to have a big sort of prior reserve movement in the second half of the year. There could be something there, but I guess by nature an unsettled payment (inaudible) we don't necessarily know how that development path is going to look if it is indeed changed from previous years.

Q - Analyst

Brilliant. Thanks.

Operator

So, before we move to our last live question for today, if you maybe want to address the two written questions.

A - Geoff Carter {BIO 20756770 <GO>}

I will indeed. So the first one is, do you anticipate any changes in behaviors from cost comparison websites over the next 12 months when the FCA pricing regime comes in? And then any longer term changes?

Personal view here, I think the fact that we're very excited about the FCA pricing regime. It doesn't mean the average customer knows that's happening. So I'm not sure in the short term there will be anything that stops customers going back to cost comparison websites to try to find a cheaper price. Clearly, after a year or two of trying that and finding the prices haven't changed much, maybe they'll start to become slightly bored of doing it.

I think it's important to put this in the context, but I believe that market rates need to increase substantially. So, you may be sitting on a renewal from your system insurer, we know that all insurers have different views on price, so it's entirely conceivable you will still find a cheaper price on the price comparison website as we go through this next 18 months or two years period.

Longer term changes, I guess. Yeah. Who knows? I'm sure they're thinking very entrepreneurially about what they might do here. I'm sure they want to have a slightly stronger relationship with the customer or maybe look at some of the ancillary products that are sold around there. So I'm sure we will see strategy develop, but I don't think this is going to happen instantly.

And the second question is how meaningful do you think -- Trevor, this one's heading your way. How meaningful you think the whiplash reforms will ultimately be and origin for something similar a little over a decade ago? However, ultimately had little impact on industry claims cost?

A - Trevor Webb {BIO 21909270 <GO>}

It's a good question, and a good announcement really. So whilst we don't write business directly there, we are exposed to claims in the southern island, so we sort of got an insight into how that model worked. And I think it's a really good comparison. The way we see this is that we're going to rebase personal injury. It will take some cost out, but then inflation will return in that sector. So, ultimately, will it reduce expenses a bit, but we will see a return to inflation and particularly if we see ongoing pressure around wage.

Q - Analyst

Thanks Trevor.

Operator

And then our last question for today's presentation is from Ben Cohen.

Q - Analyst

Hi. Good morning. And I had two questions. Firstly, I just wondered if you could tell us how much you think your target market shrank in the sort of the depths of the COVID impact? And how much you think it's recovered so far? And I don't know, I realized you sort of answered this with regards to Nick's question, but I just wondered how much further you think it's got to sort of to normalize to get back to a normal environment for you?

And the second question was actually just on the sort of below the line losses on the investment portfolio. Did that certainly relate to sort of changes in the risk-free yield or whether any losses on the corporate bond holdings for you've built up? Thank you.

A - Geoff Carter {BIO 20756770 <GO>}

I think it's fair to say that on a temporary basis, we saw a significant impact on our normal addressable market. So, we know there were very few car sales coming through the lockdown period, and we know there were no driving tests at all, in fact no driver lessons at all. So, people essentially might have moved on as learner drivers on their parents' vehicles, who weren't supposed to be giving your children driving lessons.

So, I think those two factors are pretty significant. Just also some additional bits around we think of -- see the stats on this at some point less convictions for motoring, people out driving less, necessarily best business use. So probably average speed was down I would suspect for some people. So, I think been quite a significant impact on our part of the market. I would want to put a percentage on it, but certainly meaningful.

Adam, on the investment income, that's clearly heading your way.

A - Adam Westwood {BIO 20481660 <GO>}

Yeah. So it's the risk-free rate really as opposed to anything else. If you look at the last year's fair value gains below the line, that was pretty substantial the other way around, I think this is just the way these things have moved over the last period. The corporate bonds have performed pretty well, and they're pretty highly rated bonds anyways so they're not going to be massively volatile, and that's largely driven by rates rather than sort of anything unique to our bond portfolio.

Q - Analyst

Okay. Great. And sorry Geoff, just on the first question, you're just not speculating as to how much you've seen in terms of recovery. I mean, it sounds like from what you were saying that actually while there's more to go in terms of young drivers coming back in where we're not a million miles away from where things might normalize, would that be fair?

A - Geoff Carter {BIO 20756770 <GO>}

I think there's still more to go. I think of any other bit to think about, as we've always said around the culture of our business probably came from more the pictures [ph] on the mass market. Now we know the market has been as overly competitive as it has been for the last year, we're less likely to pick up that fringe of mass market business with our margin requirements. So, I think anything that has had a more material impact or has a material impact as a target market. So that's the bit where we would expect to grow back into very quickly as rates start to increase, in a way that we don't need to because we maintained the -- we maintain our pricing foundations longer term.

Q - Analyst

Okay. Great. Thanks very much.

A - Geoff Carter {BIO 20756770 <GO>}

Thank you. Hello. Is that everything or is that (inaudible)

Operator

Nothing else for this morning, Geoff.

A - Geoff Carter {BIO 20756770 <GO>}

Okay. Thank you. In that case, (inaudible) join us this morning. Really appreciate it. Hopefully, next time we'll be able to see you face-to-face. If there's anything we've not covered, do feel free to follow management and myself during the course of the next couple of days. Thanks so much and speak to you soon.