S1 2010 Earnings Call

Company Participants

- Alastair Lyons, Chairman
- David Stevens, COO
- Henry Engelhardt, CEO
- Kevin Chidwick, Finance Director

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Ben Cohen, Analyst
- Bobby Hicks, Analyst
- Colin Simpson, Analyst
- James Quin, Analyst
- Nick Johnson, Analyst
- Olivia Brindle, Analyst
- Paul Goodhind, Analyst
- Tony Silverman, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen. Welcome to the Admiral Group 2010 full year results conference call. (Operator Instructions) We are now going live to the presentation room, where you'll hear silence or background music until the call begins.

Alastair Lyons {BIO 1520499 <GO>}

Ladies and gentlemen. thank you ever so much for coming along here early hour of the morning, and delighted to have the opportunity to talk to you about another year of record profits, coupled with continued strong growth from Admiral.

So I think most of you already know our team. For any of you who don't, from the right, Henry Engelhardt, our Chief Executive; David Stevens, our COO; and Kevin Chidwick, our CFO.

The batting order for today is as follows, but just perhaps a couple of words of explanation as to which of our Executive Directors now have responsibility for which areas in the business and, therefore, why they're talking about various things. Do forgive me; I've done the one thing, which you're always told you mustn't do. Always good for the Chairman to set an example.

So David focuses on UK insurance. Kevin as well is obviously having responsibility for our finance areas; also has oversight over Confused, our price comparison business in the UK. And then Henry takes direct responsibility for our international businesses.

And we actually also have a couple of his team in the audience here today. We have Cristina Nestares in the front there; and Peter Balbach[ph] at the back, who is one of our Business Development Managers.

Cristina, she takes responsibility, as you can see there, for not only the Spanish businesses that were her direct responsibility previously, which is Admiral Seguros, which is the new name for our Spanish car insurance business now that it has two brands which Henry will talk about later, so I won't steal his thunder there; and then also Rastreator, our price comparison business in Spain. But she also then has the three businesses, which we launched in 2010, being Chiarezza, our Italian price comparison business; and then the two French business, LeLynx in price comparison, and L'Olivier, the most recent, which is our direct insurance business in France.

So as well as that then Henry also takes responsibility for the US, Elephant Auto and Italy, which is ConTe; that's the UK insurance -- sorry, the Italian insurance business.

Just one other change before I sit down; I'd just like to mention Alistair Hargreaves has served us enormously well as our Investor Relations Manager. He's now gone back into operational experience in UK insurance; and delighted that Louise O'Shea has moved across from Confused to take the Investor Relations role.

So without further ado, if I may, hand over to Kevin.

Kevin Chidwick {BIO 15100612 <GO>}

Okay, let's start with this slide, which is the one that we like to talk about, which is Admiral is different; different because we are a motor insurance business in the UK which is making good profits, which does make us a bit unusual. We are fast growing, and certainly 2010 was a year of fast growth for us.

We do believe that we offer low risk profits to our shareholders, low risk in a number of ways. We have a low risk investment strategy; we are low risk in the way we're approaching our international expansions; and we're certainly -- we've built a low risk model in terms of our reinsurance structures that create a business that has very strong returns but limited downside in terms of the exposure to the Admiral Group on the underwriting.

And a business which despite being very fast growing and being in insurance, is able to still deliver very strong cash returns and pay dividends to our shareholders, which is something we believe in very strongly. And 2010 is a year in which we've once again paid out more than 90% of our post-tax profits as dividends, which I'll talk about in a moment.

So here's the highlights from the 2010 year. Profit up to GBP266 million, up 23%. Our turnover up 47%, and now just shy of GBP1.6 billion. And that's on the back of vehicle growth, which has been very strong in 2010. Up nearly a third to now 2.75 million vehicles, which is in the UK, round about 10% of all UK car insurance we now believe is on the Admiral books.

Very strong return on capital, as I've mentioned already; a record return; in fact, 59%, and that's because of the Group's combined ratio, despite all the international expansion going on in the late '80s. And overall, a final dividend, which is once again a new record dividend for the Admiral Group of 35.5p.

Here's our turnover slide since we started in 1993; from GBP18 million in our first year to just shy of GBP1.6 billion in our 18th year. As you can see from the numbers, GBP18 million in 1993. It took us a whole year to do. We now do on a busy month end. It's, as you can see from the numbers, the graph has taken a very sharp upward turn in the last 12 months on the back of that 2010 growth.

This slide shows our combined ratio over the last seven years, so the seven years since we came to market in 2004. It's for the Group as a whole. I put this slide up because I wanted to make a particular point, which is that really underwriting discipline is at the heart of the Admiral Group, and so you'll hear lots of stuff this morning, and you do hear lots of stuff about the things that drive Admiral's revenue, drive our profits, drive our growth, the things we're doing internationally, etc.; but at the heart of all of it is being a very focused and very disciplined car insurance underwriter.

And this period of seven years is a period in which the UK car insurance market has changed quite dramatically. It's been through probably the peak to the trough of the cycle, or the trough to the peak, depending which way you look at it. It's a year in which -- sorry, seven years in which Admiral has trebled the size of its business, and it's the seven years in which we've expanded the Group beyond the UK to be active in five other insurance markets in the world.

And yet despite all those changes, we've consistently delivered a Group combined ratio around about the mid to late 80s, and we've done that again in 2010. And that's because we believe everything else that we can achieve as a business is underpinned by being very disciplined and very focused on our underwriting result.

Here's the spread of the UK profits in 2010, split between the component parts at the Group level. So the Group made GBP266 million, and it compares that split to the three prior years. And you can see here the growth is really driven by the growth in UK car insurance. In fact, 2010 UK car insurance is now 110% -- sorry, 104% of the total; and I'll talk a bit more about that in a moment.

The Confused piece at the top made a contribution of 6% of the total, which is about half the level it was the year before; and I'll explain some of the reasons behind that in a moment as well.

And then below the line, we've got two minus 5s. The first minus 5% in the white is our international expansion, which Henry will tell us more about in a few minutes, and that is once again our investment in international makes up roughly 5% of our P&L account.

And then the second minus 5% is for our Group costs, which is primarily our shared scheme costs. And as you know, there's pretty obvious reasons for that being more expensive in 2010. One is that the share price rose a fair amount, and that makes the scheme more expensive; but the second one more materially is that we increased the size of our staff base very substantially in 2010, and as you know, I think Admiral likes to make as many staff as possible participants in the Admiral share scheme. And that's one of the reasons why the costs went the way they did.

So while I'm at the Group level I'll talk about the dividend. Our dividend is a new record. Our dividend policy remains exactly as it's always been, which is to pay out any spare cash we can to our shareholders over and above the amount we think we need to run the business. That's based on a policy of paying 45% of post-tax profits as a normal dividend, and anything else we calculate we don't need out of the special dividend. And one again, there's another special dividend at this reporting point.

It's based on this calculation, which I've shown every time I think since we reported in 2004 and beyond. We take our net assets at the end of the period; we take off the goodwill and the solvency capital we need. We then take off a buffer of GBP30 million, and that leaves us with the amount of cash that we will pay as a dividend, which this time around is GBP95 million, which works out as 35.5p per share.

And that is a new record. It's up substantially on 2009, and for this dividend, it will mean the shares will go equity[ph] on May 18, and the dividend gets paid on June 10.

But back to the UK car insurance; a very similar looking slide to the Group one. Here, we split out the UK car insurance results by their component parts and compare it back for the previous three years as well. The UK result is up 33% year on year, and that's really driven by substantial increase in volumes. The proportion of splits between the component parts, as you can see, hasn't really changed that much. Ancillary revenues there in the dark blue making up just over half of the total, and then a substantial part of the rest being made up by the underwriting result for our own book and the profit commissions in the white from our reinsurers. And they are really two sides of the same coin, and I'm going to try and talk a little bit more about what's happening with those on this next slide.

This is quite a busy slide, so please bear with me as I try and work my way through it. On the left hand side, I've split out the reinsurance structures, the underwriting risk structure for the Admiral Group over the last few years. In the 2010 column, we're retaining 27.5% of risks on our own balance sheet. We share the rest with reinsurers. The biggest part of that is Munich Re in the white in the middle; they take 45% of the whole book. And that deal, as you can see, has been coming down from 65% over the course of the last five years. It's also been changed twice since 2006. So we are now on considerably better profit commission terms for Admiral than we were back in 2006.

And then in the dark blue, the balance and the increasing balance has been given to other reinsurers who are on profit commission terms substantially better than the Munich Re terms. So overall, the Group is getting a lot more profit commission now back from its reinsurers than it would have been getting five years ago. And that's really the reason for the increase in contribution you're seeing from profit commission in the P&I account in 2010.

And I've tried to explain that on the two parts of the slide on the right hand side. So at the top, I've shown the 2009 reported result, the contribution to that result from profit commissions and reserve releases, split by the underwriting years to which they relate; so GBP85 million in total split by the four underwriting years, or the 2006 and beyond years.

And then the bottom the same numbers for 2010 account. And in 2010 GBP90 million of prior year impact -- sorry, the profit commissions and reserve releases impact. So, for instance, in the 2009 year, you can see of that GBP90 million, GBP38 million came from profit commissions and reserve releases; and of that number, 73% of it was profit commission and 27% was reserve releases.

So if you're still all with me, good. Then that's trying to explain the fact that the profit commissions, which are basically the red bits of these bars, are now making up a much more substantial component of the number than they would have done in the past.

It's also worth pointing out that the current year, in 2010, we are recognizing already, and that's the final column down the bottom right there, GBP10.9 million of profit commissions, because we're now booking a loss ratio for the initial pick in 2010 that puts that year into profitability already. So in the current year, we're recognizing profit commissions coming back from the reinsurers, which is obviously substantially more than the GBP1.5 million we recognized for the 2009 year.

So overall, it's a very similar message to what I've said in the past, which is that profit commissions are now much more important to us in the totality; and we do take them into account when we're thinking about the level of prudency in prior years. We put it together with the reserve stock and we try and maintain a consistent level of prudency overall. And that means that we've taken an initial level of reserve picking, which will be a bit lower, we'll see lower reserve releases going forward but much higher profit commissions; and probably something similar going forward to that which we've seen in 2010.

A slide on ancillary revenues, again, they've jumped up quite a lot in 2010, primarily because we grew our vehicle base by 32%. But there are some moving parts to ancillary revenues; there are lots of things which will impact the change in number. We've also grown the ancillary income per vehicle in the year, quite a big jump up to GBP77.50.

And there are a lot of things that contribute to that, and I've tried to list those out in bullet points on the top right there. And they've all moved to a more or less degree, but I wanted to highlight one in particular, which is the speed at which we grow the business. That actually has a perhaps surprisingly large impact on the ancillary revenue per vehicle.

The reason it has an impact is because we book ancillary revenues in a mixed way. Some of the revenue comes in straightaway, as soon as you make the sale; some of it comes through during the life of the policy. But the way -- the denominator in that calculation is the average number of vehicles during the year, so that will be based on an average across all the policies. So if we're growing more quickly, putting on more new business, we'll recognize more income more quickly.

So at the bottom of the slide, the graph at the bottom there shows the GBP77.50 based on our actual growth rate, which was 32%. Had we grown more slowly, maybe 20%, it would have been GBP76, and had we grown by 10% it would have been GBP74. So the speed at which we are growing actually impacts the number.

And I illustrate that because I'll make the same point I make I think most times I stand here, which is we expect ancillary revenues per vehicle to remain pretty stable overall, despite all the moving parts. And so despite what we're seeing in 2010, we'd still project a number going forward of somewhere in the mid-70s and it might oscillate around by a few pounds or so either way, depending on how we're growing.

There is more. Thank you. A couple of slides on Confused, before I finish.

Confused did have a tough year in 2010. It was a year in which the price comparison market continued to grow. They continued to gobble up more share of overall car insurance business in the UK. They're now more than 0.5% -- sorry, 50% of the total.

And this slide shows the split of the spend on TV and radio for all the main players, the four main players across the months of the year. And you can see by that graph, it's dominated by the green of GoCompare who did spend the most through the year. But it's also true to say that all of them were spending quite substantially through the year, and all of them were spending more or less consistently large amounts right the way through the year. And that helped to drive the growth of the market.

But that did mean that those who had the most successful campaigns tend to be the winners, obviously, and those who didn't were the losers. And I think the year was typified by two major winners, in CompareTheMarket and GoCompare. And unfortunately, Confused was a loser. Its marketing campaign was less effective; particularly in the first half of the year, where we had a disappointing campaign, and we lost a fair amount of market share in the first half of 2010. And that's shown on the top right of this slide.

So our market share dropped from being in the early 30s at the back end of 2009 to being in the early 20s in the back end of 2010. And that's a very substantial drop, albeit in a rising market.

And that, obviously, had a consequential effect on revenues for Confused, and that's on the top left. So Confused revenue dropped about 10% in 2010 to GBP72 million. The impact on margins is fairly obvious, and it ended up with Confused making less money. It made GBP17 million, compared to GBP26 million the year before. And that disappointing marketing activity was the main reason for that fall.

Having said that, we did change the marketing, obviously, in the mid-year, and changed it again at the end of 2010. And we have, I think, believe, got a much better campaign out there now.

I think Confused is a business that still has a strong potential, but it needs to do better with its marketing. We have made a number of changes in Confused. We've streamlined the management structure. We are making a number of changes to the website to make it hopefully more compelling for our customers. And we are launching more TV advertising shortly to hopefully improve the effectiveness of our campaign.

So there are reasons for hope for Confused, but I would say I wouldn't anticipate those impacts being very immediate. It will take longer to win back some of the business we've lost, and so I would anticipate that 2011 is a year in P&L terms that might look quite similar to 2010, and certainly wouldn't expect it being any better.

So on that happy note, I'll pass you over to David. Thank you, very much.

David Stevens {BIO 6807391 <GO>}

Thank you, Kevin. I'm going to talk about the UK market over the last year; then a bit about Admiral's performance in that market; and then briefly touch on our view of the future.

So the first thing on the UK market is the distribution story, and it's more of the same; price comparison continuing to grow; 16% up in volume terms; going over 50% of new business for the first time in 2010. And that remains part of our underlying growth story, given that over 80% of our new business is coming from price comparison.

More of the same on distribution; radically different story on prices. A level of price increase in the market, as you all know; almost -- perhaps even actually unprecedented in recent experience. The actual level of increase is a little bit less certain, with the Confused EMB survey talking about 38% over the year, the AA at 33%, and IGO4 at 25%. But what is clear is there has been a dramatic and substantial increase.

The increase hasn't been evenly spread. Different segments have experienced different increases. And most strikingly, the younger drivers, the higher premium segments have experienced the highest increase; which is a consistent reading across all the surveys. The one I've taken here is the AA with the younger drivers up 58% versus the average for the market as a whole at 33%.

Now although the market as a whole has gone up, and although it's been consistent that the younger drivers have gone up more, there have been differences in the relative movements among the competitors; and some people have gone up more than others, as you would anticipate.

Now one way we try and get a feel for that is we look at the percentage of business that comes to us from an individual competitor, and the percentage of business that we lose to that individual competitor; and we create a net number, which is the difference between the two. And on this exhibit, a positive number means that Admiral takes a lot more of its business from that person than it cedes to that person.

And the most striking play in this context is RBSI, where in 2009, we were marginally losing business to them. Now in this context, by the way, RBSI is Direct Line, Churchill and Privilege only. It's not their affinity brands, it's not Tesco, it's not NIG. So it's their three main direct brands.

And you can see a radical turnaround there, where RBSI shedding volume is having a really material impact on the market and on ourselves. And that was confirmed by last week's results announcement where you were seeing RBSI's direct brands shedding 600,000 policies during the course of last year; their affinity brands shedding 200,000. And NIG, although you can't, I don't think, unpick that from the results, has a book of 600,000, which is in the process of closing down.

So essentially, you're looking at roughly 1 million policies coming out of the RBSI Group during the course of 2010. And that's, obviously, a key driver of the pricing momentum that was experienced during the year.

They're not the only people shedding shares. Collectively, we believe the broker market is shedding slightly. This is four big brokers; the AA, Budget, Kwik-Fit, and Swinton. And you can see that we took a bit of business from them in 2009; we took rather more in 2010.

And what's happening here is that the brokers typically are struggling to maintain their share on price comparison sites, which in our view, is down roughly 20%; and that's, essentially, because they're struggling for supply. A lot of the people who've withdrawn, the HSBCs, the Brits[ph], the NIGs, essentially took their biggest hit on broker business, and particularly on broker business through price comparison.

There are obviously gains, and obviously we're one of them, but we're not the only one. There are a couple of directs that I'd highlight who are consistent growers of market share.

Here, you've got Swiftcover; took business from us in 2009; still taking business from us in 2010. And last week in AXA's results, the combined AXA, Swiftcover direct books grew 30%[ph] in premium terms in 2010, versus 2009; so really substantial growth from the AXA Group on the direct side. And Liverpool Victoria up 28% in unit terms in 2010 versus 2009.

So essentially, a picture of a number of players feeding, to an extent, off RBSI's falling share, and off some of the brokers shedding share.

Now I'm going to talk about Admiral's own experience during the year, and we'll start with one of our favorite ratios. No, we won't; we'll start with our price rises. I apologize.

Our price rises during the course of the year were very substantial, but in our view, slightly less than the market as a whole. So we've shown you numbers from IG04 and Confused, EMB and the AA, and our number of 26% is towards the end -- the bottom of that range. And we have increased competitiveness, notably on the price comparison sites.

That's partly about relative prices, but it's also partly about some of our competitors actually withdrawing from segments, as opposed to changing their prices; narrowing their footprint on price comparison sites, which is a slightly more complicated picture.

So essentially, our growth is driven by that 16% price comparison growth, some improvements in competitiveness, and some withdrawal from certain segments by competitors; and it adds up to a 32% growth.

Now I'll talk about the expense ratio. This has been the consistent and most stable element of our outperformance versus the competition. The red line is the market expense ratio on an earned basis. The blue line is our own expense ratio on a written basis. And in 2010, we have an expense ratio of 14.4%, which is our lowest ever, largely driven by increases in average premiums; slightly driven by improvements in efficiency productivity.

If you break it down, you see all the benefit comes from the administration side of the equation, where we've gone down from 7.7% to 5.6%. And none of the benefit has come from the acquisition side. And you might say, well, isn't that a bit strange in the context of rising premiums? And the answer is very much, no, because, of course, at 32%, policy growth, our share of new business, is substantially up versus the previous year; and so to hold our acquisition cost percentage of 6% of the whole book is an encouraging outcome.

The loss ratio; another of our favorite graphs. And again, just a reminder of what the lines are representing. The red line is the market reported loss ratio at the end of 2009, with any reserve releases allocated back to the accident year to which they relate. And the blue line is our own actuarial projection of ultimate loss ratio for each accident year as at the end of 2010. The numbers in the brackets are the movements between June 2010, when we last showed you this exhibit, and December 2010.

What we've seen on the loss ratio pattern is a stability in our development patterns, actuarial development patterns over the last two or three years, such as there hasn't been an awful lot of movement in the back years. The movement that has happened has tended to be around big claims.

So when we stood here six months ago and talked about 2009 going up 3 points, it was a big claim issue, because the first six months of 2010 were not good on big claims for that accident year. The second six months happen to have been pretty good, and it's come back down 2 points. Conversely, 2007 is up a couple of points; again, largely driven by volatility on big claims.

One further point on this exhibit though is to talk a bit about our Ogden reserve. This is the reserve that we have to allow for two interrelated potential hits on big claims, those hits being a reduction in the Ogden discount rate, currently at 2.5%[ph], and currently under review by the Ministry of Justice. And the other possible factor that might drive higher big claims is an increase in the percentage of claims that are settled on a periodic payment basis, or a periodic payment order.

We've talked about this in the past, and we've talked about how we have a reserve in place within the blue line which is sufficient to cover us for a reduction in the discount rate to just under 1%; it's somewhere between 0.8% and 0.9%.

Now we weren't very happy with that rather random arbitrary number. Fairly confident the Ministry of Justice is not going to come up with somewhere just between 0.8% and 0.9% if they were to make a change. So we had the option of going for 1% or 0.5%. You won't be surprised to hear we've gone for 0.5%.

And essentially, that move in the calculation of the Ogden reserve adds about GBP28 million to our projected best estimates, and moves the 2008/2009/2010 loss ratios by 1 point each, relative to the numbers here. So they're incorporated in the numbers, but they would have been better if we hadn't made that adjustment.

Now what you will have seen from that exhibit, sorry, is that 2010 is 2 points better than 2009. And you've also heard me talk about a 26% premium increase during the course of 2010. And so a 2% increase in -- sorry, 2% decrease in loss ratio seems relatively modest in the context of a 27% -- 26% increase in premiums. So how do we square the two?

Well, the actual increase in average earned premium in 2010 versus 2009 is 8%. The projected ultimate increase in claims costs per vehicle year in 2010 versus 2009 is just under 6%, hence the 2% increase. How do I square the 26% I've talked about and the 8% I've just mentioned? I'll just do that for you now, hopefully.

Well, first of all, the year-on-year Admiral rate movements that we've announced were 26% at the end of 2010; 12% at the end of 2009. If those rate increases had been spread evenly during -- through 2009, and evenly through 2010, mathematically, essentially, the average increase would have been roughly 19% in premiums over 2010 versus 2009.

Our average written premium is up 16%. Okay, so that's not 19%. Why is it different? There are two reasons it's different. We've often talked in the past about people's modeled rate increases, or declared rate increases not feeding through fully into actual experienced price increases, which we've sometimes called price comparison deflation, and has in recent years been a significant factor, 5 points or 6 points. And we believe it still is a factor notably in eroding people's, including ourselves, ability to carry a premium of renewal versus new business.

So that takes the 19% down actually probably below 16%. And what takes it back up a bit towards 16% is some small change in mix of our business towards slightly higher premium risks as people have withdrawn from some of those risks on price comparison, so we average around 16%.

Now 16% on a written basis actually translates into 8% on an earned basis, because the earned basis, we're comparing business in 2009 that was written in '08 and '09 versus business in 2010 that was written in '09 and '10. And so there are material lags that mean the full impact of price increases in 2010 has not been felt on earned premium yet, and therefore by extension on the loss ratio.

I mentioned the claims inflation underlying the actuary projections was just under 6% increasing claims cost per vehicle year. That's actually made up of a small decrease in frequency, and a slightly bigger increase in average claims cost. But certainly, those numbers are numbers that don't sound very consistent with the message of doom on the claims side that we've heard from a number of our competitors.

And we are still in a situation where we are not experiencing huge BI claims shock, and I'd like to expand on that, while holding in one hand a rabbit's foot and the other a piece of wood.

We are not experiencing a BI claims shock. We have in the past talked about frequency, and I'm -- in these graphs, which I'll come to, I'm not going to talk about frequency.

What we've said in the past was -- six months ago/12 months ago -- yes, the proportion of claims that have a bodily injury element has been increasing, but that has been a long-term feature of the market, and there was not a discontinuity in that in 2009, as observed by some of our competitors.

What I'm going to highlight is some other BI features which also suggest to us that the world is as much as it has been, at least for us. I haven't actually put values on these axes, because I don't really want to give numbers for the competitors to, in some cases, aim for.

The graphs are showing the outcomes for 2008, 2009 and 2010. What you're seeing in the top left is that our speed of settlement is practically unchanged. So we aren't seeing a radical lengthening of settlement speeds, which might be the result, for example, of people actively farming two or three-year old claims.

On the right hand side, you are seeing an increase in whiplash claim payments, but not a radical increase. You're talking -- this is late -- well, mid to late single-digit increase on average settlement costs.

Down the bottom left hand side, you are seeing practically no change in the number of claimants per claim. Again, some of our competitors have observed a significant change in that metric. We haven't.

Just to make the point that not every number we show is positive, I have pulled out one here, which is the lag between when an accident happens and we first become aware of bodily injury -- a bodily injury element to that accident. And what you see there is certainly -- I've stopped it at nine months because, in fact, it's a measure that needs to mature to be an accurate measure, and 2010 would look unrealistically good for the back end of 2010 because it hasn't had the chance to mature. But essentially, you're seeing a measure there where in the early part of the year, that lag appeared to increase by roughly eight days. Not quite sure why; it may be because it was a very busy winter last winter. It may be because they introduced the new claims portal across the market in early April, and maybe people were holding on to claims in the run-up to that. But essentially, the big picture is our experience is more of the same on bodily injury as opposed to a major discontinuity.

Combined ratio; I'll finish the review of Admiral with a -- visiting one of our favorite graphs, which is the comparison of combined ratio, where you're seeing more of the same pattern we've shown you in previous years, i.e., a substantial outperformance versus the market; a narrowing of that outperformance in 2003 to 2006. Apparently, or actually, I think, a widening of that outperformance in '07, '08 and '09, as we coped with the new price comparison environment better than a number of our competitors.

What are the prospects for 2010? There are arguments that that gap will narrow. What are the arguments? Well, we've said that our price increases have not been as rapid as many of our competitors. That should lead to some narrowing. There's a mathematical basis for narrowing on the expense ratio. If prices go up 10% and you have a 25% expense ratio, your expense ratio goes down by 2.3%. If prices go up 10%, you have a 15% expense ratio; expense ratio goes down by 1.4%, and the combined -- and the gap narrows by 0.9%. That's just mathematics, all other things being equal.

There's a change in the competitive landscape in the course of 2009 and the shock that that represents. You've seen some of the least competent players pull out. And you've seen a shock to some of the more competent players, who have been still seeing very serious losses. Has that shock energized them? Has it made them lift their game when RBSI reported last week a lot of stuff about new pricing, new claims, new processes, cutting costs? Will that feed through to a more efficient set of competitors long term?

Counter-arguments; one counter-argument is the price comparison story hasn't run its course yet. It's 52% of the market. It's going to be 60% and then 70%, and then more. And so, in a sense, the ability to cope with price comparison remains a major issue and a major potential differentiator.

Scale; we are believers in the theoretical value of scale. Not so much in the expense context; that's not the big issue. The issue is information and using that information for pricing. You look historically at the UK market; people have not made scale pay in loss ratio terms. But we believe that there should be an ability to do so, and our approach to pricing is the most likely to make it possible to realize that opportunity.

And in terms of relative competence, very pleased to say I do think there are lots of things we are still doing badly; and, therefore, there's scope for us lifting our game, as well as the competitors; and so it's just not clear cut how that's going to evolve.

Lastly, I'm going to talk a little bit about the outlook, the prospects. First of all, a disclaimer, caveat auditor. I'm not casting aspersions on the accuracy of KPMG's work, I'm saying, beware the listener. Our track record on forecasting is mixed, to be charitable. A year ago, we attempted to give you some thoughts on this year's potential volume, and we created three scenarios, one of which said we'd grow at 11%, and another said we'd grow at 15%; and the third scenario we showed you said we'd grow at more than 15%. And actually we grew at 32%.

Now if I was trying to mislead you, I might imply that I always meant 32% by more than 15%, but that isn't true; 32% was a shock to us as well. So our own record at forecasting our own results, even in the short-term, is mixed.

Our record of forecasting the market is also mixed. Here's what we said a year ago about the upcoming 2009 combined ratio. We projected 113%, and in the event, it turned out to be 122%, justly slightly above 122%. Mainly wrong on two counts, we thought that the declared price increases would feed through more into average earned premium, but we saw no feed through at all in 2009. And we thought that the reserve release, the phenomenal, unprecedented reserve releases we'd seen at the back end of the decade would diminish, but not come to a shuddering halt, as they did in 2009.

So I'm going to go on to talk about our view of the future; and right now might be a good time to catch up on your emails, based on my track record, but let's have a go anyway.

This is a best estimate of where the market might go over the next five or six years, and it's characterized by a reversion to a six or seven-year cycle. And that's partly driven by the impact of price comparison on the market, as we see it.

Now a six or seven-year cycle was the norm, going back before the early -- before last decade, where we saw essentially 10 years from worst point to worst point. There are two reasons why I don't think that sort of extended cycle will be repeated.

Firstly, in the first half of last decade, there were two benign claims shock. Frequency was better than people had anticipated, and bodily injury for inflation was initially, at the beginning of the decade, substantially better than people had anticipated. Don't think that we could anticipate benign claim shocks over the next two or three years; although if the price of petrol keeps rising the way it is, we may well be a useful hedge against it.

The other factor is price comparison. Cyclical markets overshoot. At some point, the bulk of the players are going to go from concern about margin to concern about market share.

And at that point, the market turns substantially. In a price comparison world, volume is accessible quickly and, therefore, the ability to turn a margin focus into a market share focus is substantially enhanced versus what it was in the middle of the last decade; and, therefore, a more violent turn is likely to be the case.

I've prepared some excuses for being wrong. Ogden, it should have a small, short-term effect. If the Minister of Justice came out and said it's staying at 2.5%, then the outcome for 2011 may be a bit better. If he said it's 0.5%, the outcome for 2011, a bit worse, but the turn downwards somewhat delayed.

Much bigger issue, RBSI. What are they going to do in the run-up to 2012 and their IPO or trade sale? Obviously, they're in the process of creating a narrative around a strong core, a smaller core of attractive policies and a revitalized set of competencies. They'll probably be in a position to create a narrative around the end of reserve strengthening and actually a return to reserve releases.

But will they be seeking to create a narrative in 2012 about a return to substantial growth? Or will they prefer to play an important role in achieving stability and profitability for the market, and go with a narrative about a market that is fundamentally more attractive than it used to be?

Aviva haven't been mentioned so far. Very difficult for us to track as accurately what their market share movements are because of stuff that's going through brokers and stuff that's going through directs. But we're fairly confident that they're growing quite strongly; and, obviously, they are big players and the extent of their aspiration will be important in determining that pattern. Investment income and inflation, they could alter the equation.

Gender regulation, frankly, no big deal in terms of the overall profitability of the market, or the timing of the cycle. Some potential impact on relative profitability as the different players in different contexts may be able to -- I hate to use the word -- take advantage; live more effectively within a gender-constrained environment than other players. But it's not going to be a material impact on the overall level of profitability for the market.

So in summary on the UK; substantial growth in price rises in 2010 which are not yet flowing through fully into reported profitability. Pricing momentum in early 2011 is actually exhibiting a similar pattern to 2010. What we saw during 2010 is still the case, and we anticipate some further price rises in 2011, but with a caveat. It's a cyclical market; the more extreme the overshoot, the more violent the return, potentially.

And lastly, a factor that the management team spends a lot of time thinking about and talking about, coping with growth. One of the big recurrent themes of our own internal discussions is, what is the right level of growth for Admiral in this environment?

Over one-third of our staff have been with us less than a year, and that's a function of growing your business as fast as we're growing it. And when we're determining what is value maximizing for our shareholders, it's about what can we do and still sustain what makes us special. And so one of the things we've been watching very carefully during

2010 as we grow this fast is, are we delivering on those measures which reassure us that we are still doing a very good job? And you've seen some of those today. You've seen there's been a settlement on bodily injury. You haven't seen customer satisfaction measures, but they've stayed robust during 2010.

One of the really important ones for us is staff satisfaction in the face of the pressure and the newcomers coming in; and so we're really pleased that we've achieved our highest ever result on the Sunday Times best companies to work for, coming in at number nine on a survey done in late 2010.

So that's the UK situation. I'll now hand you over to Henry.

Henry Engelhardt {BIO 3022947 <GO>}

Thank you, David; and good morning, everyone. As you can see, David makes the money, Kevin counts it, I spend it. So how did I spend it? I spent it like this. I spent GBP14.3 million on international; the figure pretty similar to what we spent in the previous year, as you can see by percentage and by actual amount. But I think what will surprise you a little bit is the makeup of that spend when cut between our insurance operations and our price comparison operations.

The insurance operations, over time; well, last year, we actually spent less than the year before, quite substantially as a percentage; only a little over 3% of the profits before tax went towards these operations, GBP8.6 million, compared to roughly 5% the year before, and GBP10.5 million.

And as you can see, the growth in development there, as Balumba -- obviously, we've been spending on Balumba every year up until 2010 when it did make a return to the Group. AdmiralDirekt; you won't see AdmiralDirekt going forward, and I'll come on to that in just a minute. And we've added L'Olivier at the bottom, and the figures there include not only the eight days of trading that L'Olivier had at the end of the year, but also the pre-launch costs that were taken during the year.

And we now insure 195,000 vehicles. Again, that does include AdmiralDirekt, so that did drop off quickly when we hit January 1.

But we did spend a lot more money on our price comparison businesses. And you can see in 2009, we really only had the one, the Rastreator in Spain; but in 2010, early in the year, we launched two further operations; LeLynx in France and Chiarezza in Italy. I'll talk more specifically about those operations in just a minute, but they did account for GBP5.7 million of our spend outside the UK, and 2.1%.

So I think, just so you understand where is the money really going, it is not gushing into insurance operations; as you can see, that's been tempered; but we are spending quite heavily on the price comparison businesses.

Germany; probably the last slide you'll see from us on Germany for a while. We did feel that it's a very difficult market and that our resources basically are better deployed elsewhere. So we chose to withdraw from the German market, and we did so by selling our operation, AdmiralDirekt, which will continue in the AdmiralDirekt name, but it is owned and managed by Itzehoer, a German mutual.

The total bill for Germany was GBP10.7 million. We feel that is not an excessive cost, but we felt it was not the right strategy to continue there, as it is a very difficult environment.

Spain. As Alastair mentioned, now known as Admiral Seguros; known as Admiral Seguros because we now have two brands trading, both Balumba and another brand called Globalty.

Balumba is our young Internet brand; you might see it akin to Elephant in the UK. And Globalty has been introduced as our bigger, broader, more general brand; you might see it compared to Admiral in the UK.

Globalty did just launch in 2011, and we have no numbers for Globalty yet, but we do expect it to come on and take a position within the Spanish market as a more general brand, and not seen as a young person's Internet brand, as Balumba is seen.

Balumba had a good year. Certainly picked itself up from a reduction in customer numbers. It grew quite a lot; it grew from 50,000 customers to 70,000 customers. It did sacrifice a bit of loss ratio to achieve this, and I'll come on to that in just a minute, because the Spanish market is quite particular. But the big benefit came on the expense ratio side, as you can imagine, as we can leverage some of the fixed costs we have in the operation. An improvement in the combined ratio of 13 points.

The result was a profit of EUR900,000. That was largely down to a robust ancillary contribution. How do you look at this? Well, that's very good. It's good to see the business making money, but it is not sustainable that Balumba can continue with a combined ratio of 135% and make money long into the future. It needs to improve. We need to see further improvements in this operation, going forward.

That will be challenging, because the Spanish economy is challenging. This is the only market we are in that we actually see vehicle numbers and premium shrinking. They are not steady, they aren't growing by 0.2%[ph]; they are actually reducing in size. There is the same number of insurers chasing less business.

In addition, there's not a lot of pain in the market at the moment. Combined ratios in the market somewhere around 100%[ph]. That's not a painful point, so we are not seeing large price increases go through the market as we're seeing in other places. This makes it a very challenging environment to grow a business, and grow it profitably.

Rastreator had a good year, good growth, but obviously at a cost; expending a fair amount of money in Rastreator to grow that. I think we are benefitting here from the

Spanish economy, because people are doing more shopping around. And I would think that Rastreator is the leading price comparison business in Spain, but we now need to transfer that growth into profits.

Quite an exciting story in Italy. ConTe, as you can see, had quite rampant growth from 35,000 customers to 86,000 customers in a single year. And this was done with an improvement in the loss ratio, but I do want to caution you, these are 12-month loss ratio figures; they are very young, they are very volatile. But I'd rather be at 70% at the end of 12 months than at 98%.

This is on the back of large price increases in the market. From what I can gather, this market has actually moved faster in price increases than the UK market, so you can see how substantial the price increases are. And therefore, we launched at a very lucky moment, very much akin to when Admiral launched at the beginning of 1993 in the UK market.

The expense ratio dropped considerably with all the added volume, and a combined ratio for a business that isn't three years old of 115% is quite good. And the result was a small loss; just a slightly larger loss than the previous year as you can see of EUR3 million. But this is a very positive start for ConTe, and we would expect to see continued growth in 2011.

On the other side, Chiarezza has had difficult trading. It's a challenging market for price comparison; it's a very busy market for price comparison. There are quite a few very good price comparison operations out there challenging Chiarezza.

Chiarezza did spend some money. It's got to build its panel more, it's got to give more competitive offers, and it's got to reduce its marketing costs in 2011.

On to the US. The US was a bit slower growth than we had anticipated. During the year, we were trading just in the single state of Virginia. We have now in the beginning of this year also launched in Maryland.

The simple math of how many people you can sell to come into play. Virginia has roughly 5 million vehicles needing insurance. Maryland has roughly the same. So we basically doubled the possible flow of customers into the same operational unit. So we should see some economies of scale go forward.

On the positive side, very positive on the loss ratio; a 64% loss ratio for a new business book is very good. I think it's worth pointing out that the US market is a very different market than the European markets. This is a damage market not a liability market. It is not unlimited liability. Can you imagine unlimited liability in the US market? My goodness. We couldn't charge enough in premiums.

So this is not unlimited liability. It's limited liability, and it's sometimes limited at very low amounts. Customers choose, and there are minimum limits of roughly $25,000. So that's -

- you know, you run over an investment banker waiting for a bus, should you ever see an investment banker waiting for a bus, all the insurers are on force[ph] $25,000. And the investment banker would have to sue the person that ran him over to collect anything else.

So a very different market. It's much shorter tail also, because it's all about repairing cars.

And so we feel more confident. This is still a young number on very small amounts of data, but we feel reasonably confident that it's not going to swing violently going forward. So 64% is a very good result.

The expense ratio, 228%, is a tad higher than we had anticipated, and clearly down to volumes. We have a call center set up; we have people sitting there waiting; we have managers, we have chairs, we have desks, etc. We need to have more customers.

Opening up into Maryland gives us access to more customers. We would hope to be opening up in a third state yet to be determined later this year. That should again add another 5 million/6 million/7 million motorists to the pool.

And by the time we get to the fourth state, out of 51 -- actually, Washington DC is treated as an independent entity for insurance in the US, so it's 51 different operations -- we would hope to have a market size close to or as big as, say, the UK market, and then we can anticipate volume.

So if you think about it, if Elephant is selling 50 policies a day, and ConTe is selling 400, but ConTe has got 40 million vehicles in its market, and Elephant it was only in Virginia and had 5 million vehicles in its market, it's not actually a bad result. But you can't really run a successful business like this on 50 policies per day.

France; not a lot to say on L'Olivier. We're still in a position where we know all our customers by their first name. We have eight people in the operation. We've attacked France in a different way. We are outsourcing the operations to avoid the heavy startup costs of all those desks and chairs and people, and managers and so-forth. So we're outsourcing all that. It gives us a fixed basis for operation, a fixed cost basis for our operations.

We will soon be on price comparison sites; that's the way we intend to market. It's unlikely you will see a L'Olivier TV commercial any time soon. It will be Google; it will be price comparison; that's how we intend to grow the business.

Price comparison is reasonably well developed in France, and growing, and that's something we found out ourselves with LeLynx. LeLynx got off to a pretty good start its first year. It has been able to drive volumes. It has a pretty good panel. And we would anticipate further growth from LeLynx. And that will help drive the growth through L'Olivier later in the year.

All in all, pretty good. 32% vehicle growth, very strong. More people to handle the customers; coping with growth in the UK and in Italy in particular. Very challenging, but challenges you certainly like to have.

Hard work; combined ratio of 89%, quite good. Three international launches in 2010; nothing planned at the moment for 2011. International growth coming forward. Profit growth, nice incline. Going like a freight train; 59% return on capital. But a lot of work to do. We can and will intend to do better.

Thank you, very much for your attention here this morning. If we can now take any questions, comments, indignant remarks.

Questions And Answers

Operator

Thank you. (Operator Instructions)

Q - Unidentified Participant

One is a request, and I know it's a repeated request, and I know there's some issues around confidentiality agreements, but the car insurance, I know you've made some attempt to talk about the accident year[ph]. But the car insurance by provider, given that there's a whole suite of profit formulae, and some of it's disclosed, some not disclosed, would make a huge help in trying to unravel what I deem as a black box in terms of that item.

So that is a request. I don't know if you can or can't do it, but --

A - Henry Engelhardt {BIO 3022947 <GO>}

I can't[ph] make a comment on that really.

Q - Unidentified Participant

All right. Well, all right. Just two others. Quick one is --. Did you want to comment? All right, sorry.

A - David Stevens {BIO 6807391 <GO>}

Yes, quickly. That 27.5% to the reinsurers other than Munich Re, you can use a fixed cost assumption of about 1.7%[ph] on that, of premium. And then assume 100% profit commission is coming back after that on all of that 27.5%.

And then the Munich Re one I'm afraid I can't disclose; it's confidential. I can only help you with some of the -- if you show me your modeling, I can give you a bit of a hint as to whether it's miles out or roughly --

Q - Unidentified Participant

It's not the Munich Re. It's easy to model the (multiple speakers).

A - David Stevens {BIO 6807391 <GO>}

They are relatively straightforward now. They're just -- take an average of 1.7% and assume it's the same across the book, and everything else comes back to us.

Q - Unidentified Participant

All right. I assume there's some limits around 104[ph] and stuff there as well, but -- investment income and some contracts that it isn't included and --

A - David Stevens {BIO 6807391 <GO>}

We get all the investment income, as long as we are in good profit territory after the 1.7%. If we go into negative territory, that income would help cover some of the costs.

Q - Unidentified Participant

Maybe you can give further disclosure that would be useful. Shall we chat about that?

The other thing is, I was wondering -- the poor weather we saw, what that would have added to the loss ratio, and with a mind to reverse it out next year if it doesn't reoccur. The poor weather we saw in November/December; if it didn't reoccur next year, what sort of --?

A - David Stevens {BIO 6807391 <GO>}

The poor weather was primarily a property event rather than a motor event. And although the ABI has issued comment talking about very large amounts of claims going out in December, if you actually work out the number of motor claims you might expect during the course of December, it isn't that radically different from the number being quoted.

So in my view, December was a rough month, but other months have been good months, and really it's not a big story there.

Q - Unidentified Participant

The last one is, you talk about an expense ratio superior to your peer group, but you have a business model that tends to pay people in shares, and you've got a GBP12 million costs that isn't even in the profit book. All[ph] tax will go straight through to the NAV.

When you bring that back in, it's a significant amount. I'm not criticizing whether it is or isn't in the combined ratio, but given that you're increasing the amount of staff and your share price is going up, I was wondering if you would give us some kind of steer where you saw that going in terms of your business model going forward.

A - David Stevens {BIO 6807391 <GO>}

Well, the rules of the share scheme are such that we can't allocate to our staff more than 1% per year, or 10% over a rolling 10 years of new shares. So we do very much believe in the model of as many staff as possible participating in the scheme; and, therefore, we do look to utilize as much of that capacity as we can. But we certainly won't be able to, and can't go any further than that sort of number.

So it depends entirely where the share price moves, of course, and whether -- in terms of the P&L impact of the event, but it's probably going to keep growing a bit more, and then it'll look pretty stable going forward after that, all else being equal. But the share price is quite an important part of it.

Q - Paul Goodhind {BIO 16200839 <GO>}

It is Paul Goodhind, Redburn Partners. Reserving[ph] conservatism, could you flesh it out in more detail? In particular, you're putting in I think 12 points of front-end conservatism[ph] is what you've said historically. That was down from 15% a year or so ago. The language in the press release suggests that maybe that's moved down again. Would that be a correct interpretation?

You're trying to keep the overall conservatism broadly flat, taking into account profit commissions, I think is what you've said in the past. So are you still putting in 12 points at the front end is the question.

And in terms of reserve releases to premiums, that's come down quite a lot to 9 points. I guess that's expected, but is that now a broadly stable level, do you think, going forward?

A - David Stevens {BIO 6807391 <GO>}

It depends on the level of profitability that emerges from the book, or we think is going to emerge from the book, and therefore the amount of profit commission that we think we're looking at in the number.

Your comments before are actually spot on, Paul, which is to try and look at the thing in the round and take the conservatism to keep broadly consistent across both. And by definition, just talking to Greig[ph] there, that does mean that bigger PCs[ph] means we'll be building less stock into our initial picks on reserves.

So I'd say it probably looks like it's going to be similar or maybe slightly smaller going forward from where we sit right now, but it depends on how the perceived loss ratio, profitability emerges.

Q - Paul Goodhind {BIO 16200839 <GO>}

But is 12 points at the front-end still a reasonable --?

A - David Stevens {BIO 6807391 <GO>}

No, that's a bit higher now.

Q - Paul Goodhind {BIO 16200839 <GO>}

It's a bit higher now, so maybe --

A - David Stevens {BIO 6807391 <GO>}

If you go to the back of this pack in the appendix, you can see the initial pick on 2010 year is 78[ph]. And I know it's underwriting (inaudible), but we're looking at 70 as a projected alternative[ph] to 2010 at the moment. So that's not 12 points.

Q - Paul Goodhind {BIO 16200839 <GO>}

So 8[ph] to 10[ph] maybe?

A - David Stevens {BIO 6807391 <GO>}

Yes, at the moment.

Q - James Quin {BIO 3878205 <GO>}

Three questions, please. First one is, I wonder if you could possibly walk us through from the expected ultimate loss ratio for last year -- sorry, 2009, of 72%, to the 70% for 2010 in terms of some of the high level moving parts.

One thing that was mentioned briefly, I think it was either half-year or with the Third Quarter, was the drag that comes from renewals versus new business -- or, sorry, new business versus renewals. I don't know how much of a feature that is within those high level movements.

The second question is just on the quality of the earned premium in 2011 versus 2010. I guess I could probably work this out for myself, but I just wonder if I could have your view of if there were no rate increases at all in 2011, what the earned effect would be just on a like-for-like basis.

And the third question is a quick one. In terms of reserved conservatism, Kevin, is this essentially an absolute figure or a relative figure in terms of it's an absolute figure, or is it relative to the size of the business?

Thank you.

A - Henry Engelhardt {BIO 3022947 <GO>}

Working backwards, Kevin --

A - Kevin Chidwick {BIO 15100612 <GO>}

I'll take the easy one. It's relative rather than absolute. Give David the two hard ones.

Page 24, your question is what would happen if there was no price inflation in 2011. I think I'd have to go away and do it, but I think you'd be somewhere low teens on your earned premium, but I'd have to go away and do it.

And what was -- there's another one, was there?

Q - James Quin {BIO 3878205 <GO>}

Walk us through the ultimate '09/'10, which is a bit easy[ph].

A - Kevin Chidwick {BIO 15100612 <GO>}

Yes, page 23; essentially 72[ph] to 70[ph], average earned premium up 8%, cost per vehicle year just about 5.7%[ph], I think. Frequency marginally down, so average claim -- average cost per claim itself up 6%-ish, just above 6%.

In terms of unpicking, why you get a 19% turning into a 16% in terms of the average modeled rate change versus the average written, it's actually really difficult to say, well, that's mix, that's renewal versus new business; that's this, that and the other. You just know that these forces are in play and their rough magnitude.

Q - James Quin {BIO 3878205 <GO>}

Would you say within the 70 for the 2010 year that there's any noticeable impact in that from a new business versus renewals drag, which I think you talked about that being a 10 point impact.

A - Kevin Chidwick {BIO 15100612 <GO>}

No, no; that is material in the sense that the loss ratios on new business are materially worse, low double-digit worse; and, therefore, there is a mix effect on your outcome.

Q - James Quin {BIO 3878205 <GO>}

And how long does it take for that to run its way through the books again?

A - Kevin Chidwick {BIO 15100612 <GO>}

Well, it's just essentially the renewal book is better than the new business book immediately. It's true to say that the second year is a bit better than the first year, and the third year's a bit better than the second year. But the big thing is the renewal book is better than the new business book.

So you could probably work out the mix of premium between new business and renewal, and if you said, let's assume that switches to 50/50, you could work out the materiality of it. It's going to be 1 point or 2; it may be even knocking on just above 2 in terms of the outcome.

We haven't really done it because essentially we've always been growing. It's not that we have -- if we were sitting here and saying, look, the growth's coming to an end guys, and by the way, when you're projecting, you might bear in mind this effect. But 2011 is going to be another year of growth. So we're not going to be sitting here talking that much about a change of mix.

Q - Andy Hughes {BIO 15036395 <GO>}

Two questions, if I could; the first one on confused.com. In terms of your market share and data, you're getting a very high level given that it's not growing perhaps as quickly as peer group. Is the very high level of the revenue you're seeing currently people responding to an email at the end of the year saying -- are they existing clients, basically? Could you break down the number between existing clients who are renewing and new clients?

And the second question was on the large claim movement in '07. Is that not a bodily injury claim? And I know you've got a lot of slides that show that things haven't really changed for bodily injuries, so I was just wondering what it was, if it wasn't bodily injury claims deteriorating.

Thank you.

A - Kevin Chidwick {BIO 15100612 <GO>}

Let me do the bodily injury claims first, if that's all right. The thing about large bodily injury claims is there is a randomness about them. You can have a case which could be, depending on when it -- how it turns out when it goes to trial, potentially seven or eight years after the accident, you could win on liability or lose on liability. You can be surprised on quantum positively or negatively. And so there's going to be always volatility on big claims. And that doesn't mean there's necessarily a big change in underlying patterns.

So in the latest set, you've seen some volatility in an adverse direction in 2007, but you've seen some volatility in a positive direction on 2009, which of itself is offsetting volatility in the other direction at the first half.

So you've -- there's volatility and there's trends. Now the trend is for big bodily injury claims to get more and more expensive as things like care costs more, as medical instruments cost more, and things -- as lawyers get more and more sophisticated in adding heads of damages. So those big claims increase well above inflation. But they have done for six, seven, eight years now, and so that in itself is not a discontinuity in trend.

Confused?

A - David Stevens {BIO 6807391 <GO>}

On Confused, Andy, I think you've seen the latest Confused ads, and if you remember them, that would be nice, you'll know that we feature in that ad at the end that we've got

20 million customers. And so that's almost everybody now at some point in their lives has gone on Confused and done something.

So an awful lot of Confused customers are repeat customers, and with market growing at 16%, as it did last year, there's a lot more existing customers in the whole market than there is of new customers.

So it is true to say that most of Confused customers will be people that have used Confused before. But it's also true to say, I think, that we can get better at marketing to those customers through emails and other routes. And so it is an area that can make a contribution to Confused doing better, but it's not as impactful, as important an area as reminding customers in the first instance that Confused is around and has got a good product to offer to them when they come to their annual car insurance renewal, because they're likely to have forgotten where they went last year.

A - Henry Engelhardt {BIO 3022947 <GO>}

Andrew?

Q - Andrew Crean {BIO 16513202 <GO>}

A couple of questions. Could you talk about projections this year for rate rises relative to average claims cost; what do you expect for those two by the end of the year?

And then on the International business, I think if you take out AdmiralDirekt, your vehicle count overseas went up 34% and your vehicle count in the UK went up 32%. And the whole idea of International was it was supposed to expand more rapidly than UK to take up the running when the UK eases off.

When do you expect to really grind up the vehicle count in International? Have we reached that point of launching some of those companies and really getting it to move forward?

A - Henry Engelhardt {BIO 3022947 <GO>}

Can I take that one first? Well, the goal isn't to ramp up the vehicle count. The goal is to create profitable, sustainable growing businesses. So if doing that means ramping up the vehicle count, so be it. If it means growing the vehicle count slowly, so be it.

34% is ahead of 32%, but part of the problem is the UK had an exceptional year for growth. How many times in the past have we grown 32% in the UK? Not often.

Q - Andrew Crean {BIO 16513202 <GO>}

1994[ph].

A - Henry Engelhardt {BIO 3022947 <GO>}

That's about it. So I would say that you met normal markets outside, although the Italian market didn't grow by percentage far more than the UK market, and exceptional growth in the UK, which is going to make it harder to catch up to the UK, isn't it?

So we don't have a date. We don't have a time. We don't say, by next Thursday, we've got to be bigger outside the UK than in the UK. It's a function of growing these businesses successfully over time.

A - David Stevens {BIO 6807391 <GO>}

And on the price increases, market growing, say, 30%-ish last year, you don't keep that going forever, for obvious reasons. What we'd expect is that 2011 price increases will outpace claims inflation, and hopefully materially. We've been encouraged by the first two months of the year, but it is only the first two months.

A lot of competitors are still in a sense looking over their shoulder at 2010 reported results which are not good. And so we'd hope the momentum will be sustained during 2011, but probably at some point in the course of 2011, things will cool off.

Q - Andrew Crean {BIO 16513202 <GO>}

But average claims inflation, where do you see that? Do you see that easing back with higher oil prices and perhaps the spike in bodily injury claims easing back?

A - David Stevens {BIO 6807391 <GO>}

Well, I think the frequency will have -- petrol prices will have a beneficial effect on frequency if they're sustained; and tightness on disposable income will have a beneficial impact on frequency, and that will be sustained. So the frequency story is probably mildly positive. And the average claim story, well above -- well, I say well above inflation, inflation may well yet catch up; above inflation, but in line with the single digits that we've got in 2010.

Q - Andrew Crean {BIO 16513202 <GO>}

Thanks.

A - Henry Engelhardt {BIO 3022947 <GO>}

A couple towards the back.

Q - Nick Johnson {BIO 1774629 <GO>}

Just a quick question. I wondered what you estimate your share of new business sales through a UK price comparison site is running at. I think that's a number you may have given in the past and how it's changed over the last year.

A - Henry Engelhardt {BIO 3022947 <GO>}

Sorry, you're talking about --?

Q - Nick Johnson {BIO 1774629 <GO>}

Share of -- your market share of --

A - Henry Engelhardt {BIO 3022947 <GO>}

Oh, the direct brand share of price comparison, sorry. David?

A - David Stevens {BIO 6807391 <GO>}

Yes, it increased, increased substantially; late teens maybe, something like that.

Q - Ben Cohen {BIO 1541726 <GO>}

Could I just ask on the price comparison sites outside of the UK where you've seen losses increase quite a lot. You made one or two comments that some of the markets are very competitive. Could you maybe just say a bit more in terms of how much you see needing to invest before you get to break-even, and what are the metrics that you're looking at to determine, well, this is a market where it's really going to succeed and we're going to get a scale business; and maybe where, if you're one of six or seven, that you just don't think you'll make it?

Thanks.

A - Henry Engelhardt {BIO 3022947 <GO>}

Sure. We're the leader in Spain, and that market looks interesting. We feel we're on a good trajectory. Whether we're profitable this year or profitable next year, not completely clear. Part of it does -- you are investing now for your future as well, as you can see by Kevin's comment on the repeat users, so you're building your repeat users in many cases. So -- but we feel we're on a good trajectory there.

We think the French market is good. It's growing, which is the most important thing. The market is growing, and we feel we've done well so far to be able to get the quote volumes up to good levels.

The one that's proving most difficult, as I said, was the Italian market. It looks expensive to get quote volumes up. We need to get those costs down and that's what we'll be concentrating on during 2011.

Q - Colin Simpson {BIO 15894636 <GO>}

Just a very simple question really. Why didn't the market earned premiums go up in 2009?

A - David Stevens {BIO 6807391 <GO>}

The discrepancy between the survey price increases and the actual reported earned premium increases was the largest it's ever been. And in 2007 and '08, you were looking at 5% or 6% discrepancy, and I think it was at 9% or something like that in 2009.

It's not very easy to say. The possible explanation is people moved quite radically to protect their renewal book from the impact of price comparison, and there was a very material -- well, what would have had to have been a very material reduction in the margin between new business and renewal.

And the other factor is probably inaccuracy in the surveys, which were overstating the actual price increases being put through; whether that's because of not representative baskets, or not representative insurers being looked at.

Q - Colin Simpson {BIO 15894636 <GO>}

Is there any movement from comprehensive to third party as well coming through possibly?

A - David Stevens {BIO 6807391 <GO>}

In the market as a whole?

Q - Colin Simpson {BIO 15894636 <GO>}

Yes.

A - David Stevens {BIO 6807391 <GO>}

Well, I don't -- there's been a long-term trend for third party to shrink as a share of the market to the extent that you get some real selection issues around third party, because the saving you make on third party isn't that substantial in a lot of cases, and if people need that saving, then they become a less attractive risk; and so the gaps are narrowing and narrowing. So I don't think there's anything particularly material happening there.

Q - Tony Silverman {BIO 2162363 <GO>}

I was just wanting to ask a bit further about slide 19, your very interesting slide on changing competitiveness. You mentioned, obviously, four people there. There are lots of others you mentioned in the course of the narrative; you thought Aviva was increasing share, but were they indeed neutral vis-a-vis yourselves if they're not on that list? It would be interesting to hear a bit more about that slide.

A - David Stevens {BIO 6807391 <GO>}

The reason we don't include Aviva and we don't do RSA and MORE THAN either, it's very difficult to do people who straddle brokers and insurance, because when the customers report to us, they report -- they might report they've come from Swinton's, they might report they've come from Aviva, depending on whether they're reporting the broker or the insurer. So the numbers can be misleading, and so we've hesitated to use them about those cross-distribution channel brands, but we do see within those numbers an indication that Aviva is growing materially.

Q - Tony Silverman {BIO 2162363 <GO>}

Is that because they're just being -- and MORE THAN or any of the others that aren't on there, are they getting to grips with price comparison sites, or just throwing money at it and doing it inefficiently, if you like? How would you characterize the rest of the market at this stage?

A - David Stevens {BIO 6807391 <GO>}

Well, this is very dangerous because Aviva are doing their results tomorrow or the day after or something. So you run the risk of being entirely discredited soon after having spoken.

Q - Tony Silverman {BIO 2162363 <GO>}

I understand.

A - David Stevens {BIO 6807391 <GO>}

But what I would say is I suspect if you look back at Aviva, they increased their prices first back in 2006, and they shed a lot of share; and my guess would be, I don't know whether this will become apparent, that in fact, they haven't really been going up with the market in 2010 to anything like the same extent as players like RBSI. That would be my guess.

Q - Tony Silverman {BIO 2162363 <GO>}

Thanks very much.

A - Henry Engelhardt {BIO 3022947 <GO>}

We've got one at the back first. Then come back to the front.

Q - Olivia Brindle {BIO 17273762 <GO>}

Just going back to the ECJ ruling on gender, you said you do expect some potential relative changes in terms of competitors and how they can respond to that. I was just wondering how you see yourself in that context, given that you currently potentially have better segmentation in terms of how you relate that to pricing; and do you think that potentially gives you a worse positioning in responding to this change?

Thank you.

A - David Stevens {BIO 6807391 <GO>}

There are two things I'd say about that. First of all, I would say that the younger market is a more important part of our book than it is some of our competitors, so actually, the exact section of the market which is really materially affected by this, i.e., the younger drivers, is more important to us than it is to a number of others.

I think our ability to respond within that segment is probably better than most of the people that play in that segment, because essentially, you're going to be looking for factors that try to adjust for the loss predictiveness of gender. And I think being direct and being someone that has asked lots of questions and kept lots of data, puts us in a better position to make that adjustment more effectively and respond to errors in that adjustment more quickly than a number of our competitors operating in that area.

Q - Bobby Hicks {BIO 18272685 <GO>}

Bobby Hicks, Macquarie. Just a small point. You mentioned, Henry, that you've outsourced a lot of the admin in France. I wondered -- I'm presuming that doesn't include risk selection pricing or perhaps claims management. I wonder what it does include. Who's doing it and whether there's any model there for other territories?

A - Henry Engelhardt {BIO 3022947 <GO>}

Correct. We're doing the pricing. We're doing the bodily injury claims management. They're doing the damage claims management. They're handling the sales calls, the customer service calls, basically the renewal calls. Yes, and we'd like to think that if this -- if we can make this work, it does give us a way to enter other markets in the future. That would be a less costly entry ticket.

Q - Bobby Hicks {BIO 18272685 <GO>}

If you can't say who it is, can you say what it is? Is it an insurance company?

A - Henry Engelhardt {BIO 3022947 <GO>}

It's a broker, an intermediary.

Q - Bobby Hicks {BIO 18272685 <GO>}

Thank you.

A - Henry Engelhardt {BIO 3022947 <GO>}

Any other questions, comments or indignant remarks? Anything from the phones?

Operator

We have no questions from the telephones.

A - Henry Engelhardt {BIO 3022947 <GO>}

We have answered them all. Great. Well, thank you all very much for your time this morning and if not before, we'll see you end of August. Cheers.

Thank you.

Operator

Ladies and gentlemen, the conference has now concluded. You may now replace your handsets.