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Bloomberg Transcript

S1 2013 Earnings Call

Company Participants

- David Stevens, COO
- Geriant Jones, deputy CFO
- Henry Engelhardt, CEO
- Kevin Chidwick, CFO
- Louise O'Shea, IR Manager
- Martin Coriat, CEO, Confused.com
- Milena Mondini, MD, ConTe

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Dhruv Gahlaut, Analyst
- Greig Paterson, Analyst
- Marcus Barnard, Analyst
- Marcus Rivaldi, Analyst
- Peter Eliot, Analyst
- Ravi Tanna, Analyst
- Tom Dorner, Analyst
- Will Hardcastle, Analyst

Presentation

Henry Engelhardt {BIO 3022947 <GO>}

Good morning. Welcome to Admiral Group's 2013 full-year results presentation. I'm Henry Engelhardt, Chief Executive of Admiral Group.

As you'll see in the next few minutes, 2013 was a good year for Admiral; not spectacular, but, as I said in my CEO statement, a baked potato kind of year, a comfort food kind of year. And there are lots of reasons why today's baked potato will be tomorrow's steak dinner.

I'm going to be joined by Geriant Jones, deputy CFO, to look at the results of the here and now, which is largely about reserve releases; will be followed by David Stevens and Martin Coriat, who are going to look at the mid-term, which is about the eventual turn in the UK market; they will then be followed by Kevin Chidwick and Milena Mondini, who are going to take a look at Admiral's exciting future; I'll then come back to wrap up, before we open up for your questions.

So, this slide is made up of a great set of bullet points. But the one that really jumps out to me is the return on capital. We typically generate a return on capital in excess of 50%, and 2013 was no exception with a return on capital of 58%. This shows how efficiently we use shareholders' money. And you really don't find such a ROCE everywhere you go.

Geriant, which is the one that flips your switch?

Geriant Jones

Thanks, Henry. Good morning, everyone. Well, my highlight would probably be the Group profit figure, that's the GBP370 million; 7% higher than 2012. It's another record year, and it's generally very pleasing. The increase in the profit versus 2012 was mainly due to the strong result from our UK car insurance business, and I'll talk more about that very shortly.

And, of course, thanks to a lower UK tax rate, earnings per share was actually up by 10% to 104.6p.

But another figure that stands out to me is the turnover figure, which, you can see, was down 8% to just over GBP2 billion. Henry will talk more about that in just a second, but it's, of course, down to our response to what's happening in the UK market. And like many, or maybe all, of our competitors, we've cut our prices, but only to the extent that we believed it was value maximizing in the medium to long term.

That approach, of course, has an impact on the number of customers we serve around the Group, which, you can see, was up 4% to 3.7 million. And that's a more moderate rate of growth than we've seen in recent years.

We've kept the UK vehicle count broadly flat over the past couple of years; in line with the strategy I just referred to. But we are seeing decent growth internationally. And, of course, the figure now includes some UK houses, though, thankfully, hardly any of them too close to rivers or floodplains, and such like.

I'm also quite a big fan of the dividend figure, but I know somebody who likes that even more, so I'm going to pass you back to Henry.

Henry Engelhardt {BIO 3022947 <GO>}

Yes, Geriant. It's yet, once again, a record dividend; 50.6p for the half year; just a smidge under GBP1 for the full year. And the great thing about a GBP1 per share dividend is that if you know how many shares you own it's very easy to calculate how much money you're going to get.

If you had bought shares when we floated in September 2004, you would have already collected more than twice your money in dividends alone, and you'd be sitting on the current shares, and your return to date would be in excess of 700%.

We're going ex-dividend on April 30; payday is May 30.

Now, this used to be my favorite chart, if you can imagine, that pattern; 20 years of uninterrupted growth. And you know what? It's still my favorite chart, even though, for the first time in our history, we had a decline year on year in turnover. It's still my favorite because the decline was our choice.

UK car insurance is the easiest business in the world to write more of. All you have to do is offer it a bit cheaper and people will buy it. We could have increased our turnover if we had wanted to, but we showed a lot of discipline not to chase the market all the way down. And this decline isn't surprising after several years of rampant increase in turnover.

This chart shows a little bit about where the turnover came from. I'd just like to make one simple point, and that is the gentle evolution away from UK motor; from 90% to 84% of turnover in two years; from 88% of customers to 82% in two years. That's turnover.

Let me now pass it back to Geriant to look more at his favorite bullet point, those profits.

Geriant Jones

Thanks, Henry. Let's now take a look at where the profit comes from. This chart sets out the contributions to, or the deductions from, Group profit made by each of our business segments.

As you can see in the dark blue, the UK car insurance business makes up 106% of the total. The business made a profit of GBP394 million in 2013; that was up 6% on 2012. As at the half year, this was mainly due to an improved combined ratio, following a positive claims experience over the past couple of periods.

The combined ratio moved down to 83% from 90%; and remember, that's pure motor insurance only.

Further detail on the drivers of that UK results are coming up in a couple of slides' time.

The light blue, 6%, at the top, is the profit made by our price comparison operations. Overall, 2013, those businesses made GBP20 million of profit, which was double their level of 2011. Confused.com had another good year; and the European price comparison businesses, Rastreator in Spain, and LeLynx in France, both had profitable years, too.

The light green, 6%, below the line, slightly improved in relative size compared to 2012. represents the losses in our international car insurance businesses; Admiral Seguros in

Spain; ConTe in Italy; Elephant Auto in the US; and L'olivier in France.

As we saw earlier, and we'll see much more of later, the segment continues to show good growth. In 2013, the overall combined ratio improved by 25percentage points to 152%, from 177%. The overall loss also fell, from GBP25 million to GBP22 million.

And finally, the yellow 6%, right at the bottom, represents everything else. And that's mainly the charge for our share schemes, which I hope you will all be familiar with.

Incidentally, to note, on the back of the second-half results of 2013, our 7,000 staff will share between them over GBP10 million worth of free shares.

Next up, some brief comments on capital and solvency. As Henry has already highlighted, Admiral has consistently generated pretty high returns on capital. The figures in the chart, on the left, track those returns back to our first full year after floatation; and you can see, every year it comes out above 50%.

I'm pretty sure the key reasons we're able to do this are familiar to you all, but the main points are repeated here. Extensive use of co and reinsurance capital efficiency, coupled with remunerative profit commission arrangements is probably the main reason. But, of course, good levels of profitability also helps.

Incidentally, we announced, a month, or so, back, that we signed extensions to our UK reinsurance arrangements, so the capacity is fully placed up to the end of 2016.

And you might also have seen, back in December, that we announced Munich Re is committed to underwriting 40% of the UK risk up to the end of 2018, at the earliest. More detail on the underwriting arrangements set out in the appendix.

Those extensions are good news for Admiral. They demonstrate the confidence of our partners in our business, and, of course, they secure reinsurance support further out into the future.

But, as we always say, to be capital efficient doesn't mean Admiral isn't a well-capitalized Group, and the chart on the right-hand side shows this. All our capital continues to be Tier 1 equity. Our insurance Group's directive solvency coverage ratio at the end of the year was 391%. Even after taking off the proposed final dividend, the ratio's still 270%.

These next few slides will go into a bit more detail on the UK car insurance result. And first up, this chart on the left shows the change in turnover and total premiums in 2013 in the blue, against 2011 in the green. You'll notice a pretty similar pattern to half year.

The fall in the turnover is, clearly, largely driven by the fall in total premiums; and that fall is down to a combination of rate cuts, and a pretty modest shift in the portfolio towards lower average premium business.

We say this a lot, but just to repeat again, we manage our UK business to maximize value, not market share. And we've kept the UK vehicle account pretty flat over the past year or two, reflecting the competitive environment we're all very well aware of. Martin and David will speak more about that, shortly.

The right-hand chart shows the key underlying ratios. And probably the most important point here is the improvement in the loss ratio.

Claims experience for us over the past 24 months, or so, has been positive. That's resulted in higher reserve releases, and a material improvement in the reported loss ratio, which, you can see, fell to 68%[ph], from 76%. More detail on UK claims on the next slide.

The expense ratio is about 1.5 points higher than 2012, and that's largely as a result of the lower average premiums we spoke about.

As you can see from the dotted lines, our numbers continued to compare favorably to the market numbers; we make those to be about 105% on a reported basis for 2012.

Next up, as promised, some detail on UK claims. This first chart shows the pattern of our reserve releases as a percentage of earned premium over the past few years. As you can clearly see, after a couple of reasonably quiet years in 2011 and 2012, releases have increased materially in 2013; back up towards the long-term average, you see on the left.

Now, as you'd expect, we were able to release more, due to improvements in the projected ultimate costs of open claims. And to give some indication of that, measured at the whole account level, the best estimate for reserves outstanding at the end of 2012 improved by over GBP100 million during 2013. That was on top of positive development in 2012.

It's, of course, important to point out that, despite the big increase in the releases, the margin held in our booked reserves above the best estimates is still big. And it was higher at the end of 2013 in actual terms, and slightly higher in relative terms, than it was at the end of 2012. And, try as you might, we are not going to tell you how big it is.

But this chart shows you where most of that margin is held. It shows, on an underwriting year basis, the book ratios for 2009 through to 2012, compared to the projected ultimates for those years. Taking 2012 as an example, you can see, we are booking it at 78%, and that's about 8 points higher than the projected outcome for that underwriting year.

Final slide from me is on other revenue. As you can see from the top bullet, it's a material source of our profit; GBP173 million net of expenses for 2013 out of the GBP394 million UK result.

2013's net other revenue was about GBP30 million lower than 2012s, and the chart on the left there sets out, on a per-vehicle basis, what's happening.

The first point to note, on the left, is the vehicle commission impact of about GBP6 per vehicle. That's actually a profit-neutral accounting change, which moves profit from other revenue into underwriting. We've talked about that a lot over the past couple of results presentations, so I'm not intending to go into detail now, but very happy, again, to take your questions later on.

The first of the true economic changes is the loss of bodily injury referral fee income, which equated to about GBP4 per vehicle. As you all know, those fees were banned from April 2013, alongside reforms, which reduced the costs for small bodily injury claims.

And finally, largely down to lower average premiums, we also saw a GBP2 per vehicle reduction in installment income, which, is of course, charged as a percentage of the premiums.

Just to quickly note that the Competition Commission is nearing the end of its review into the market, and we expect to see provisional remedies from them in May, or June, time. As we've said previously, given the focus of that review, a potential outcome is the banning of credit hire referral fees, and which, for us, they amounted to approximately GBP5 per vehicle in 2013.

Don't forget, of course, that you would expect to see compensating reductions in claims costs as part of any change that is forthcoming.

Quick comment from me on the outlook for other revenue. Notwithstanding the comment on credit hire referral fees, we're not expecting any major change in the KPI during 2014, though it will, of course, be the first full year without solicitors' BI referral fee income, and that should reduce it by a further GBP1, or so. So, it's not unreasonable to expect us to finish 2014 slightly lower than GBP67 per vehicle.

That's it from me. Back to you, Henry.

Henry Engelhardt {BIO 3022947 <GO>}

Thank you, Geraint. This chart -- this slide looks at our international numbers. I'm not going to go into great detail about this, Kevin and Milena will put meat on the bones in just a few minutes, only to say that it was a year of progress in all our young businesses. It wasn't stunning. It's not mind bending, but workmanlike improvement everywhere we trade.

It's time now to take a look at the mid-term; and, for that, we're going to turn it over to David Stevens and Martin Coriat.

David Stevens {BIO 6807391 <GO>}

Thank you, Henry. Thank you, Geraint. Martin and I are going to look at the recent history of the UK car insurance market, and what might be round the corner for us. Martin's going to start it off. Over to you, Martin.

Martin Coriat {BIO 20266744 <GO>}

Thank you, David. Good morning, everyone. I'm very happy to be here today. Since the end of last year, I'm the Confused.com CEO, but I joined the Admiral Group about six years ago. In the last six years, I launched and managed the French aggregator business.

To start with, I would like to discuss the current price insurance cycle, and present how price has evolved over the last few years. It's an interesting starting point to discuss what's around the corner in terms of price insurance cycle. However, working in a price comparison business, I'd like to adopt the price comparison view of this cycle, before letting David discuss the more insurer view of it.

So what happened in terms of price evolution in the last six years? As you can see here, from the Confused.com price index, premium experienced a massive increase in the first few years, between 2008 and 2010, picking up 38% increase in 2010.

In the last couple of years, you will not be surprised to see the new business rate falling dramatically. Prices have actually fallen by 13% in 2012, and an additional 13% in 2013. Great news for customers, isn't it? But overall, the cycle is clearly shaped, and reminds us how much the insurance business is cyclical, with very abrupt ups and downs.

I know there are quite a few indexes out there, and that's we've come up with this slide. It might be a bit confusing for you all, the different indexes, and that's why Confused.com is proudly presenting to you today a fair comparison of the different price insurance indexes.

In a nutshell, as you can see here, they're all relevant, but address the car insurance prices question a bit differently. Confused.com takes only new businesses prices into account, when ABI is across new business and renewal. Confused and ABI are both based on a very large volume of data, whilst the AA index comes from a much smaller sample.

The other main difference between these indexes is the length of service, as some indexes started to be published a long time ago, while others are more recent.

So it's not surprising that they all come up with different figures on a quarterly basis; they use a different methodology. But they all clearly indicate the same downward trend for the entire year, 2013, as you can see. It's up to you to decide which one we want to take into account. As far as I'm concerned, the choice is clear; I'm a Confused.com price index fan, but I might be a bit biased.

In this environment, what are Confused.com's results in 2013? Confused made a very good year, and we're very pleased with this strong set of results. First and foremost, profit is up year on year, as well as revenue, which, in the aggregator business, is synonym of good and growing business.

Second, we continue to make progress on a lot of operational fronts, including traffic acquisition; getting more customers on the Confused.com website. To give you one example, Confused enjoyed a number one position on natural search on Google for the main product in 2013.

Last, but not least, Confused proved its innovation capabilities by launching QuickQuote and offering new experience to customers. In case you do not know QuickQuote, it's a user-friendly and very rapid quote process that allows Confused.com registered users to get quotes in seconds.

Our plans for the future remain very ambitious. First one, to grow our market share in an ever maturing market; we want to promote new products and new innovation in order to be less reliant on car insurance. And finally, continue to install our new brand identity, Brian the Robot, in consumer minds.

Overall, 2013 was a very good year for Confused. We're very pleased with the results. 20% profit increase is a fantastic result in a competitive environment, and we know that the car insurance aggregation is a very competitive environment. So we'll see what the future has in store for Confused.

But if we step back and add up a market view of the price comparison, it's still a very good market to be in. You can see on this slide the rate of price comparison adoption over the years, and is a clear message; whatever is the evolution of the prices, whatever prices are going up and down, price comparison continue to flourish.

Consumers are definitely embracing it more and more. They're embracing it for car insurance, now being used on that front, and we can see from the charts an annual growth rate at 19% over the last six years. The market is slowly maturing, and we can expect a phase of more limited in growth in the future.

But it is also embracing it for other products as well, such as home insurance; a product that grew 16% year on year in 2013. So these other products are, clearly, the future growth drivers for Confused.

That was the vision from a price comparison perspective, and I will now hand over to David for the insurers' view of the cycle.

David Stevens {BIO 6807391 <GO>}

Thank you, Martin. So, while this was happening, what was happening from the insurers' perspective, well, particularly from Admiral's perspective? Well, here's what was happening on volume. Of course, the most striking thing is the very rapid growth in 2010/2011; 60% growth, 1 million vehicles.

How did we do that? Well, a cunning ploy of increasing our prices more slowly than the competition during that period of rapid inflation; and a continuing offering of products to consumers in the higher premium segments, segments abandoned by a number of our competitors at that point.

The other, of course, striking feature if the flat volume over the last two years. As prices started to fall in the middle of 2011, our price reduction lagged those of the market. And also, we ceded market share in those high premium segments as our competitors began to re-enter those segments.

So, not only have we seen flat volumes, but we've seen material reductions in average premiums, driven both by our price cuts and our mix change.

But what about profitability? Well, one thing we can say now, with a large degree of confidence, is that the decision to grow very rapidly in 2009 and 2010 was the correct decision, and that those have proved to be very profitable years.

This is an analysis that shows the ultimate combined ratio, using data as at the end of 2013 on an accident-year basis. What you're seeing here is 2011 and 2012, the two accident years most impacted by the growth in business written in 2009 and 2010, delivering sub-85% combined ratios.

Now, it's always tricky to deliver growth and profit in insurance, and we're pleased to have done so. It's a combination of good timing and effective delivery.

And another piece of evidence of effective delivery that we're particularly proud of is our single key customer service measure; what happens when our customers get proof of the pudding, in the eating? How do they respond to the claims service? And throughout this period, and despite the very rapid growth, over 90% of our customers who had a claim said they would renew with us.

Okay, so that's profitability up to 2012. What about 2013; a year which has seen, at the end of it, 24 months of continual price reduction? Surely, profits have collapsed. Well, there's more to profitability than just premium; there's also the claims side of the equation, and 2013 has been an unusual year in that respect.

On the left-hand side, you've got our own experience of bodily injury inflation. That's a combination. It's bodily injury costs per vehicle year, capped at GBP500,000, so it's a combination of frequency and severity. Our experience won't be identical with the market as a whole, but it's likely to be, in many respects, quite similar.

You see there the very rapid inflation during 2009 to 2012; that was one of the factors that led to the rapid premium inflation in 2009 and 2010, and early 2011.

But most importantly, of course, you see that very substantial fall in bodily injury cost in 2013, which in our own case is a combination of a bigger reduction in frequency and severity on small bodily injury than we would have anticipated 12 months ago; and some reasonable outcomes on medium-sized bodily injury claims, as well.

If you look at 2013 profitability, you see that the impact of premium deflation, which would have been a 4percentage point deterioration in the loss ratio, is fully offset by a combination of good news on claims, non-BI, and BI.

On non-BI, there's a small reduction, the equivalent of 1percentage point. That's interesting. Last week, the ABI numbers came out for the market as a whole and, actually, frequency was up 2% in 2013; the first time it's gone up for a number of years. We, ourselves are down, maybe a reflection of our change in mix.

And, of course, more importantly in terms of the 2013 profitability equation, that 3percentage point reduction in the loss ratio, resulting from good BI outcomes.

Well, that's great, but what are the prospects for 2014, and beyond? Well, I certainly don't think the market should expect such an amazing year as 2013 on the claims outcome.

And that 4percentage point increase in loss ratio from price cuts, that's only capturing some of the impacts of price cuts, because this is an accident-year analysis and the full impact of price cuts during 2013 doesn't feed through.

So we are expecting it a deterioration in profitability for ourselves, and for the market, on an underlying basis, on a current-year basis. And this is our view of how the market might evolve. We're painting two scenarios; we're painting a mildly optimistic set of scenarios, and a mildly pessimistic.

On the bodily injury front, our optimistic is saying further momentum for bodily injury reforms; further consolidation in claims management; another good year for body injury, not a great year, not a minus 10% year, but maybe a very small increase.

On the pessimistic scenario, the impetus for reforms, there's some evidence it might be weakening; maybe nothing does get done in 2014; maybe claims management companies are beginning to adapt their model, so that they're responding to the new environment. And then you see a poor year -- not a poor year, return to normal on bodily injury, so maybe mid to late single-digits.

On non-bodily injury, I say that the frequency has gone up a couple of points, but it's incredibly subdued; it's 12.8% for the market as a whole; it was 17.5% as recently as 2006. So, in the optimistic scenario, we see the claims frequency staying subdued, not changing substantially.

In the pessimistic scenario, we see a rise in disposable income, and some more confidence, leading to higher mileage and some higher underlying frequencies.

And lastly, on the premium side you've got an optimistic scenario. Now, our optimistic scenario is that markets changing from falling to rising in the middle of the year. Some of our fellow insurers have talked about the end of quarter 1 for a change. I'm not sure that's that plausible, so we've plugged in, in the optimistic one, half year. And in the pessimistic one, we're looking at the end of 2014/beginning of 2015.

When you plug all that in, you end up with two very different looking scenarios; a combined ratio in the mid-teens in 2014 and 2015 as the peak, or a combined ratio in the mid 20s, or even late 20s, peaking in 2015.

Now, in truth, if you take three mildly pessimistic assumptions and think they're all going to happen, that's a pessimistic scenario. If you take three mildly optimistic assumptions and say they're all going to happen, that's an optimistic scenario. The balance of likelihood is that the outcome will be somewhere in between these two projections.

What are the prospects for Admiral in that scenario? Well, we take comfort from the continued growth of price comparison in car insurance, which is our core source of business, above and beyond our main competitors; and also, the fact that it's growing in home insurance, which is a small new entrant, it's helpful for us in making our way in that market.

We also feel that whenever the upturn does come we are better placed than almost all our competitors to take advantage of it, because of our superior underlying economics.

And lastly, we also are happy to say that there is continued potential for further substantial reserve releases, if claims develop as we expect them to.

So, that's around the corner. Now we're going to go onto the future, with Milena and Kevin.

Kevin Chidwick {BIO 15100612 <GO>}

Thanks, David. Good morning, everybody. Milena and I are going to go through our update on our international businesses, and also talk a little bit about the prospects for the longer term. But before we do that, I wanted to just go back and restate our rationale for doing international in the first place.

We launched international because we believe the Internet is an irresistible force. We believe this is how customers want to buy their car insurance, or many customers want to buy their car insurance. And we see these markets going more and more Internet, and more and more direct over time. And we think we've got something to offer customers in that regard.

It's a long-term project. As you can see from the graphic at the bottom of this slide, we started back in 2006. We now have four insurance operations and five brands, because we launched another brand, Qualitas Auto, in Spain last year; and that's Spain, Italy, France, and the USA.

We also have three price comparison businesses outside of the UK. Price comparison businesses are a fantastic proposition for customers, as we've seen from the slide on how much they've grown in the UK. And they're a great way to help insurers in terms of growing their market, as well.

Our approach has been entirely organic. And we've sought to grow cautiously, as we learn about each operation, and about what works, or, more importantly, what doesn't work in each geography. So whether by price comparison or by direct advertising, we need to be efficient in our marketing. Obviously, we gain customers by offering good prices, and we only keep those customers by offering great service.

You can see from this slide that our international businesses, in aggregate, are starting to become quite a material part of the Group. With steady growth year on year since 2006, we now have more than 500,000 customers insured internationally. And that number's gone up about 200,000 in the last couple of years.

So, we started in 2006; that means, effectively, we've been pursuing this strategy now for about seven years. During that time, we've grown to 500,000 customers, and lost GBP79 million. During that same time, we've made just over GBP2 billion in the rest of the Group, so the cost has been somewhat less than 4% of our profits, so far.

We think that represents very good value for money, and testimony to the fact that the cautious organic approach, whilst perhaps slower than some people might prefer, is considerably cheaper, and less risky, than an acquisitive route, or an aggressive growth approach. So our guidance to you today is to expect more of the same, going forward.

The path to profit for these businesses will be market specific, and, of course, will be different for each operation. But generally, it will be long term. And it can be delayed further if we decide to invest more in growing those businesses in terms of new business.

Universal experience would suggest that six years to 10 years is a reasonable time span to consider, and so you might want to bear that in mind when thinking about how these businesses are progressing. For us, patience is key.

We'll get into each of these insurance businesses shortly. But before we do that, I wanted to look at the price comparison businesses internationally, in aggregate, and this slide does that.

For price comparison, as we see on this graph, the path to profit means that the trajectory is somewhat different, because of the nature of the businesses. It's usually much shorter, assuming, of course, that the businesses themselves are performing well, and so we see a pattern of a couple of years of losses, before profits start to emerge. And that's been the pattern for LeLynx in France, and for Rastreator in Spain.

The size of the losses, of course, depends on the size of the markets they're going after, and also on the strategy they deploy. In that context, we've launched comparenow.com in the United States just last year, which is, of course, the largest car insurance market in the world.

So let me pause there and hand you over to Milena, who's going to give you some more country-specific updates. Milena is the CEO of our Italian business, but I'll leave it to Milena to introduce herself more, in more detail.

Milena Mondini {BIO 18674746 <GO>}

Thank you, Kevin. Good morning, to everybody. Folk who doesn't know me, I joined Admiral in 2007, after an MBA at INSEAD and an experience in Bain & Company. I spent a year in Cardiff to learn about the business, and headed in Rome to launch our Italian operation.

Together with Kevin, today, I will tell you more about our international businesses. In each slide, you will find key metrics about the market, and main trends on the top, and something about what we achieved so far and our mission for the future in the bottom of the slides.

So, let's start with France. It's a big market; GBP15 billion; 32 million vehicles; and combined ratio is over 100% since several years, and is accelerating. In fact, France was one of the only markets in Europe in which price didn't decrease, despite a lower fuel consumption and economic crisis. And this is because the benign frequency trend in France has been more than offset by claims inflation, particularly driven by BI claims and regulatory changes.

France is also the market where we have seen the faster grow of price comparison sites in 2013; plus 26%. In fact, in 2013, only the media spending of the price comparison market was almost EUR40 million; double compared to 2012.

So distribution shift is promising, and also will be supported by some regulatory change and Hamon Law. If you're a policyholder in France today and you want to cancel your policy you have to do it in determined timeframe, with reduce of[ph] cost. After the right[ph] amount will be implemented, and likely to be in the course of this year, you will just need to send a simple mail any time, no penalties. So it's going to be much easier, and this will change the equilibrium of a market that is based on very high retention rate.

In France, we have our smallest operation, L'olivier, a toddler. L'olivier doubled in size in 2013, reaching almost 30,000 customer, and GBP13 million of turnover. So, actually, it went from being very, very small to be very small.

As you may remember, we adopted in France a different approach, partnering with a local outsourcer. After three years of test and learn, we decided to insource both operation and IT system to better leverage the opportunity we have in this market.

Let's move to Spain. Spain is the first country we entered overseas. Smaller than France; is GBP8 billion of insurance premium. But the shares of direct players in this market is actually much bigger; it's already 20% there.

Spain went through several years of very difficult economic condition that in the last six year led to a reduction of fuel consumption of more than 20%, and car sales more than 50%, leaving the average car age from seven years to more than 10 years. New car sales is an important trigger for switching insurance and for new business volumes, that, in fact, shrank significantly in the recent times.

Given the loss ratio is, anyhow, still below 100%, and given a positive claims trend, the main players in the market they said they gain[ph] in 2013 to decrease their rates; helping in a contraction overall of 6% in insurance premium in the market.

The answer of Admiral Seguros in such a competitive environment was a successful marketing campaign with a very successful actor, that you may have recognized in the picture, Pierce Brosnan, for the new brand Qualitas Auto.

As in UK before, we launched second brand in Spain. Qualitas Auto is helping Admiral Seguros not only to reach out better different customers, but also to better leverage the price comparison channel, where the price element is given by default, and association with high quality of service as the brand name suggests, are very positive and could support conversion.

With this and many other initiatives, Admiral Seguros was able to grow by 30% its active customer base, and wrote more than GBP40 million of premiums. But even more important, it was able to do so while at the same time improving technical results.

Scale is important for our Spanish business. We are now in a better position to grow, particularly if you can see that in 2013, finally, we have seen some timid, very timid, signs of economic recovery.

And last, but not least, at least in my heart, Italy. It is the biggest European country we're in, with GBP17 billion of premiums, and 37 million of vehicles.

2013 was a noticeable year for Italy. First, we came from the year with a best combined ratio, definitely, I remember, in the last 10 years, and almost 10 points better than the previous years, in a market that normally runs at a combined ratio, runs for several years, over 100%.

Second, rates, after five consecutive years of price increase, and some strong price increases, finally started to decrease.

And last, but, again, not least, regulatory change are really trying hard to stimulate more shopping.

Now, you may have noticed that in Italy, in the recent times, we used to change government quite often, and we decided to adopt a very similar pace for changing insurance regulations.

Abolishment of automatic renewals is just one of those new laws, was implemented at the beginning of the year; and saw[ph] possibly less impactful than the HamonLaw in France, is definitely increasing shopping and decreasing retentions.

Main players in the market are responding with more aggressive retention strategy, loyalty programs, new business promotions. And in this very competitive environment, ConTe also decided to decrease the growth pace, and focus more on building stronger competitive advantages.

Just an example, we focus more on improving claims process, the underwriting, pricing. We set up a direct network for claims third parties; and also, we work on more innovative projects, as, for example, telematics, or self-provisioning of service for our customer. And we also focus on motor bikes, because Italy is the only country in Admiral Group where we do underwrite motor cycles as well.

ConTe has 280,000 customers, and wrote something close to GBP100 million of turnover, and, therefore, has already a decent scale to build upon.

Italy's complex market, particularly on the claims, underwriting, and anti-soc[ph] side, so learning takes times. But those are also the areas where we are seeing steady progress, and, in fact, underwriting margin in 2013 improvement materially. And also, those are the area were, actually, main Admiral strengths lay in.

I firmly believe, and you may think that I'm biased here, maybe correctly, that we do have a very high potential in this market, where more pricing sophistication and being able to manage complexity well can make a real difference in the market.

And now, Kevin will tell you more about an even bigger market.

Kevin Chidwick {BIO 15100612 <GO>}

Thanks, Milena. Okay, the USA, really last, but not least, it's a big market, very big market; it's 200 million vehicles; it's more than GBP100 billion of premiums. That's across the whole market, of course.

Elephant itself, our business sales in four states, which is Virginia, Texas, Illinois, Maryland, and that gives us access to 34 million customers out of the 200 million.

It's a pretty stable market in terms of profitability. It generally runs a combined ratio in the late 90s. This is helped by being a very high persistency market. Only about 10% of customers each year change their car insurance provider, compared to maybe one-third, or so, in the UK.

But the market has some other important distinctions at this -- that make it quite different to Europe, and certainly to the UK. The first, and perhaps most significant, is that it's a limited liability market.

In the UK, the insurance company's responsible for whatever happens following a claim. If one of our customers cause a horrific injury, is involved in an accident and that requires a lot of long-term care, etc. then we'll be responsible for all of that cost. And that can mean you have claims -- we have claims on our books that can be upwards of GBP10 million.

But in the US, the customer chooses what cover they want on their car insurance policy, and that's the limit of the insurance company's liability. In Virginia, for instance, many customers will choose what the state prescribes as a minimum required, which is $50,000. And whatever happens in an accident, whatever costs are incurred following that, the most they will have to pay out is that $50,000.

That limited liability tends to create a more stable environment for claims expectations, and it does tend to also mean that the -- much of your claims issues are around repairing cars, as opposed to people.

The second important distinction in the US, as I'm sure that you're quite familiar with, is that the US is a very heavily regulated market; regulated by prescription. Detailed rules govern how prices can be set; they govern how the product can be designed. And all changes that you want to make to that product, or to those -- your prices have to be filed and approved.

All these rules are done at a state level. So if you operate across the US, you've got 50 -- or, in fact, 51, including Washington DC, different regulators that you have to interact with if there's anything you want to change within your business.

And that's led to the incumbent players in the market not changing their rates very often. In fact, a recent survey showed that the average car insurer in the US only changes their rates once or twice per year in a state. I'm pleased to say that Elephant is more Admiral-like in the way it behaves in that we expect to be changing things much more frequently than that.

But all of this regulation hasn't helped the customer that much. Customers still end up paying quite high average premiums, despite the limited liability. And much of that premium, in fact, just over one-third of it, goes towards corporate expenses, as opposed to going towards paying the claims.

The market is slowly changing from agent to direct. Direct companies now represent just under one-quarter of the whole market, but they represent about 40% of all new business that changes hands. So they are growing.

And with over $6 billion spent on advertising in the US for car insurance there's no shortage of customers' attention to advertisement on TV. In fact, I'd challenge anybody in this room to get off a 'plane in New York, or wherever, and be able to walk more than -- to travel more than about 15 minutes before you see something advertising at you from either GEICO or Progressive; the two major players in the US.

We believe that all of that is really good news for Elephant, because the big players are helping to broke more and more customers shopping, and do much of the heavy lifting in terms of transferring customer behavior towards direct. All we need to do is be one of the providers in the customers' mindset when they get around to doing their shopping.

In 2013, Elephant made good progress. We grew by about one-third, to 70,000 customers. Particularly pleasing to report good growth in Texas, which is, obviously, our largest state that we operate in, and currently our fastest-growing one.

We improved our loss ratio year on year. That's partly a reflection of more customers becoming renewal customers; but partly from a number of portfolio changes we made to pricing, I referred to earlier, to improve the overall -- the underlying loss ratio. And our expense ratio improved, part -- mostly from an increase in scale in the business.

So, overall, the written combined ratios, as you can see on the slide here, came down from 175% to 152%. Still a way to go, but very, very good progress in the year.

Let me bring my section to a close by saying that, in summary, we're very pleased with our international progress in 2013. We see the development as very encouraging. We've brought the combined ratio on a written basis in Europe down by 17 points, as you can see there; and in the USA, down by about 23 points.

But when you look at the size of the opportunity in the markets, when you think about looking at longer term, the opportunity is virtually limitless from where we stand today. We've got 500,000 customers, but that's 500,000 customers against a direct market in these four countries of some 60 million people, which obviously is an enormous opportunity for us.

But we don't think that is really the size of the opportunity, because we believe that the direct market itself is going to continue to grow in these markets, as we've seen across all of them. And that means that, probably, you're talking about 500,000 customers in the context of a market that has, maybe, 300 million customers in it overall. So really is quite limitless in terms of potential.

In that context, you should expect more of the same from us; more cautious organic growth; more continued growth, but on that nature. And, of course, that requires patience. Thank you.

Milena Mondini {BIO 18674746 <GO>}

Kevin said that efficiency's the key for the car insurance side of our business, and this is a less critical work[ph] for our price comparison side of the business, where actually results can be appreciated much earlier on. In fact, in 2013, Rastreator and LeLynx, launched respectively in 2009, 2010, did important progress, and they did make money; GBP2.4 million of profit, for a turnover of GBP25 million. That is 20% higher than the previous year.

And 30% (sic; see slide 33, "19%") is also the grow rate of our quotes; now more than 5 million, indicating that customers are more and more embracing these now shopping channel, also outside UK. And there is more and more interest in the direct market.

But viewing[ph] profit, what we are really proud of is that we established leadership position in both markets. In fact, Rastreator and LeLynx are best-known brands among French and Spanish consumers, respectively, with LeLynx having something like 50% brand recognition; and Rastreator holding an even more dominant position in the market with a share over 50%, possibly between 60% and 70%.

So we are extremely pleased with the success of this year, and the results we achieved. But we are also very aware that we need to work hard, to defend our position and to develop the business from here.

In France and in Spain, we've been able to replicate successfully Confused's business model and leverage on Admiral's strength, as, for example, the capability to build a new brand; to develop the brand; to invest efficiently in marketing; maybe, very important also, the knowledge that we have of the product; of the customers; of the partner needs from inside, out.

Those are the same ingredients that we think will make successful our new-born operation, comparenow. Actually, it turns out to be one year's old just yesterday; happy birthday. And we think we can replicate -- we want to replicate the same -- similar model in the US.

In US, strangely enough, there are true pure price-comparison site at the moment. There are lead generators, but this is a quite different value proposition, and less strong, from both consumer and insurers' perspective. And consumer customers are showing a very important interest in these new comparison service.

But also, insurers see an opportunity here to reduce acquisition cost, very high in UK -- in US, we are seeing it in a range of $300, $400; and particularly, there's more players who can transfer the risk of acquisition to the price comparison site. In fact, we do have under contract several couriers[ph] in US, also very well-known brand. So the operation is busy, and is starting to advertising in California.

Of course, US market's a huge market, so this is just a toe in the water, and will be much more learning to come.

Thank you, very much. I'll hand over to Henry, to recap what we're seeing so far.

Henry Engelhardt {BIO 3022947 <GO>}

Thank you, Kevin. Thank you, Milena. A brief summary of today's presentation. Good results for 2013, with the near term dependent on reserve releases.

The mid-term space will be dominated by the eventual turn in the UK market, while Admiral's long term is a story about growth; outside the UK; in UK household, which we haven't discussed, because it's just too small and too young; and, not to be forgotten, the UK car insurance market. We've got 11% of that market; 89% to go.

Important to our ability to produce another year of record profits is our staff. We have a very simple philosophy at Admiral; if people like what they do, they'll do it better. So we go out of our way to make Admiral a great place to work.

Most recently, we placed second in the 2014 best big companies to work for list. And that's a very pleasing achievement, because the majority of that ranking is based upon what your staff think of you.

Another simple Admiral philosophy is that we want all our staff to feel like they own a bit of the Company, so we do the natural thing, we give them a bit of the Company to own. We've given them over GBP350 million worth of shares in the last 10 years, and in the coming weeks will distribute another GBP10-million-plus to 7,000 members of staff.

Take a look at these bullet points. All in all, I think you'd agree, a tasty set of results.

Thank you, very much for your attention this morning, and we'd now like to open it up to questions from you.

Questions And Answers

Operator

(Operator Instructions)

Q - Tom Dorner {BIO 15847486 <GO>}

Tom Dorner, Citigroup. My first question is on your growth potential, should the market turn, like you're indicating, in, say, the next 12 months' time, or so.

Clearly, you start from a much bigger market position than you did back in 2009. Does that put any kind of structural limit on your ability to find profitable risks if the market turns? Obviously, the growth rate won't be as high as it was before, because you're a much bigger business. But do you think being a bigger business in its own right caps your ability to grow?

Then the second question I had is a statement you made -- or comment you made in the statement about other revenues, and if they were to go away you might be the happiest guy in town, because you're underwriting is so much profitable than everyone else.

It's difficult to assess this from the outside, but certainly an impression that I might have is that you've been better at exploiting these other revenues than your peers, so perhaps you have more to lose. Could you comment on that at all? Thanks.

A - Henry Engelhardt {BIO 3022947 <GO>}

Yes, shall I take the second one, first; and you can take the first one, second? Okay.

I'd say, in the past, you're absolutely right, we were leader in other revenues, and we did exploit those opportunities better than our peer group.

I would say, we're not particularly better than our peer group at the moment, sadly. Some are better than us, some we're better than. So I stand by my statement, that if they were to disappear, and everyone was forced to rely solely on their combined ratio, they are limited in their choices. It's prices up, because most of them are running combined ratios above 100, and we're sub-90.

A - David Stevens {BIO 6807391 <GO>}

In terms of the growth prospects, I think, over the very long term, our growth prospects in the UK market are a function of our relative competence versus the others that we're competing against. And if we can maintain our gap versus the market, we have attractive growth prospects, but that requires continual improvement innovation.

What I would say is that the 60% that we managed in two years, from the middle of 2009, was a very unusual series of circumstances, where you had massive dislocation, huge premium inflation, and the withdrawal of a number of players who really hadn't been able to adapt to a price comparison world.

Although we see an upturn in rates at some point, a potentially material upturn, because the volatility of the market, we believe, is actually being enhanced by the level of shopping and price transparency of price comparison, I don't think you'd necessarily say you're going to have a repeat of something as dramatic as that.

Q - Will Hardcastle {BIO 16346311 <GO>}

Will Hardcastle, Bank of America. Your solvency capital requirement increased year on year. Could you, perhaps, discuss how much of that is driven by growth, or expectations, or perhaps rate declines?

And other revenue per vehicle is decreasing. Now, as -- is there a risk that this could carry on decreasing on the installment income, because people become less likely to pay by installments as the average premium is lower? Have you seen any change in the dynamic of take up of installments, relative to full payment?

A - David Stevens {BIO 6807391 <GO>}

I'll do the installment one, we'll be consistent and do in the wrong order; and then, I'll hand it over to Geraint, or Kevin. I don't see a material change in the mix of installments as a result of fluctuations in premiums, so I don't think that the installment is that big an issue.

A - Geriant Jones

The solvency capital, as you said, did go up. And just a reminder of what that number actually is; it represents our view, 12 months out, to what the solvency required to run the business will be at that point in time. That's the majority of it. It also includes things like capital that's sat, for example, in the US in advance of losses that, that business will make over the next 12 months.

So it's made up largely of our view of what the solvency requirement will be in 12 months time, and also contains an allowance for the cost of expansion, effectively.

Q - Greig Paterson

Greig Paterson, KBW. Three questions. One is I wonder if you could quantify the mix impact on average premiums, so we can reverse out the rate.

Second thing is I wonder if you could tell us the percentage of your business that was renewal, and compared to the prior year.

Also, if you listen to Direct Line, they said there's been an improvement in the PPO percentage as the IBNRs transition to actual claims. I was wondering if you're having that experience. If you are, what year has it been[ph], and has it been affected into the ultimates by (inaudible)?

A - Henry Engelhardt {BIO 3022947 <GO>}

David, you can answer in any order, they're all yours.

A - David Stevens {BIO 6807391 <GO>}

Okay, new business renewal mix is roughly the same. Having 24 months of flat business 2013 and 2012 are not materially different in terms of new business renewal mix.

We don't disclose exactly what we think is mix and what we think is underlying premium reduction, or premium inflation, if that was the case. I would say that the majority is premium reduction, and there's some mix, rather than the other way round, but I wouldn't go beyond that.

A - Henry Engelhardt {BIO 3022947 <GO>}

Improvement in PPOs?

A - David Stevens {BIO 6807391 <GO>}

Although – vigorous[ph] signaling from the back, we do disclose, 3% is mix.

A - Henry Engelhardt {BIO 3022947 <GO>}

But we don't get more precise than that.

A - David Stevens {BIO 6807391 <GO>}

We've had a consultation on disclosure of policies. And the last one, now I've forgotten it; I had it, but Louise interrupted me.

A - Henry Engelhardt {BIO 3022947 <GO>}

PPO.

A - David Stevens {BIO 6807391 <GO>}

PPOs, well, I don't think we've -- I think Direct Line was a bit of an outlier, in some respects, in terms of the underlying amounts of money they were setting aside for PPO, so it may be that what they're reporting is a reversion to the industry norms.

I don't think we've seen a material change in PPO, either up or down. The market as a whole has seen the percentage of cases over GBP1 million that settle as PPOs pretty flat for the last 18 months, 24 months.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Marcus Rivaldi, Morgan Stanley. Three questions, please. You're confidence about a return of growth in UK premiums, to what extent do you think is the party over in the higher risk segment with telematics, and others, looking to compete in that segment, that you did describe as almost having it to yourself a couple of years ago?

Secondly, you gave some color on this before, but when people leave Admiral where do they go to now?

Then finally, on the frequency fall point, to what extent would you put that down to the reforms actually working, and, therefore, versus maybe a decline in economic captivity? Thank you.

A - David Stevens {BIO 6807391 <GO>}

The frequency on bodily injury is, I think, largely down to the reforms being affective, at least in the short term, and hopefully in the medium and long term.

The places we're losing business to, I think we may have highlighted in the past that whereas some of our major quoted competitors are not our biggest current competitors the players that stand out at half year, I think, were AXA and Hastings. And that hasn't changed, in terms of people that are taking a big and growing proportion of our lapses.

Party's over on high premium? I'd say two things. I think, first of all, telematics, the impact of telematics can be exaggerated. It's accounting. It has increased in scale. It's accounting for knocking on towards 2% of new business, of course, most of that in the higher premium segment.

But we are a substantial player in telematics with a material share of the Telematics new business market, and it is less profitable for us than our non-telematic business. And there are a number of players out there very excited by telematics, who are yet to have that experience.

That's -- and in terms of the more standard business, the non-telematic business in the higher premium segment, what you see is a regular pattern of people coming in and out of the higher premium business, along with the cycle, where there is a confidence and exuberance about risk at a certain point in the cycle that then gets -- tends to be reversed, as the experience of actually writing effectively that segment proves not straightforward.

So I don't think the party is necessarily over. But I would caveat that by saying if our competitors have become very, very competent at doing it then, of course, that is a threat.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Could I just[ph] point out; you always talked about Internet being an irresistible force. Is the use of technology to underwrite that part of the market an irresistible force, as well?

A - David Stevens {BIO 6807391 <GO>}

I think there's a proportion of the commentariat who love technology and underestimate the barriers to its effective implementation in practice, and so it is not necessarily the case that because something is technologically feasible it's actually economically valid, or of interest to the consumer. One of the fundamental things that we've always said in this is, actually, the UK consumer dislikes this intensely, as it currently stands.

And that is a barrier to it being as successful as ultimately we hope it would be. Because, actually, we're of the belief that telematics is a tool that delivers a large volume of data, and provides insight. And that's what we love. We love large volumes of data and insight.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay, thank you.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. I want to misuse your baked potato analogy. It's pretty hard on the outside, but soft in the middle.

When I look at slide 22, obviously, you're showing, in your mid-point scenario, an industry change of deterioration for the industry of 13% in the combined ratio. Does this read across to Admiral? Are you saying that Admiral's loss ratio, on a best-estimate basis, would be 13% higher in 2015? If not, could you explain why?

I guess the second question is when I think about the mix changes and the overall price declines, so revenue's down 7%, of which 3% is mix and 4% is actual price, yet market prices for new business are down 13% over the past two years. Is this mix effect -- so, basically, what's going on? It sounds like, actually, the mix has probably increased risk, rather than reduce, given those figures you're quoting. Thank you.

A - David Stevens {BIO 6807391 <GO>}

I think on the mix thing, it's a one-year thing, the mix thing. Louise, were you willing to clarify that?

A - Louise O'Shea

Yes. I think when we're talking about mix we're talking about the average written premiums down 13%. When we mention our mix was average written premium is down 13%, we've had 10% reduction in rates, so the rest is mix. So that's where that 3% came from. Okay?

A - Geriant Jones

I think there's also probably a Group versus UK thing going on there, because in the UK the turnover in total premiums were down by 11%, or 12%, which is much more in line with that sort of average premium reduction.

Q - Andy Hughes {BIO 15036395 <GO>}

And is the mix effect going to continue going into -- is it something you see continuing for the next couple of years?

A - David Stevens {BIO 6807391 <GO>}

We've always said that our choice of where we write is driven by where the profit is and so we never know at the beginning of the year what our mix effect is going to be at the end of the year, except, of course, some of it is the renewal book coming through. But in terms of where the opportunity is in new business, that varies, depending on where we see the right price changes.

In terms of our sensitivity to the car insurance cycle, yes, we are inevitably affected by the car insurance cycle. And to the extent that the underlying profitability of the industry deteriorates, ours is likely, to an extent, to deteriorate.

We do offset that by varying our volume moves and our relative pricing moves in a contra-cyclical, rather than pro-cyclical, way. And we also have had a long established policy of being very conservative about when we recognize profits. So, a lot of the profit that we're reporting today really relates to 2010 and 2011; two very good years.

We think that's appropriate, because you cannot be certain about the profitability of a year until it's matured; and because our policy is to pay out most of our profits as dividends, and you shouldn't do that until you absolutely know you've got those profits in the bank. That does mean that our profitability, as reported, is a function not just of the current year, but of past years. And I think that impacts how our reported results move, so in a way that isn't just correlated with the market cycle.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Could you give us a sense of the competitive environment in the First Quarter? There's been two narratives around this; one, that things are getting better; and one, that things are not getting better in the First Quarter. Could you give us your view of that?

Secondly, during the last off cycle, one of the things that you did was to reduce the reserve conservatism when setting up current year accident year reserves. I think the difference between your ultimates and where you set them up at the beginning was reduced, and that helped to stabilize profitability into a down cycle. Do you plan to do that again?

A - David Stevens {BIO 6807391 <GO>}

If I do the market; maybe, Geraint, will do reserves.

Okay, now being a natural pessimist, I would describe the market as getting worse more slowly than it was. So I think prices fell in the Fourth Quarter. I think they will probably be reported as falling again in the First Quarter. But I think the rate of decline is slowing, and I think that is a precursor to a turn.

But as I mentioned in the two scenarios, I don't think it's likely that a material turn could happen, even in optimistic scenario, until the middle of the year. And there's a quite plausible view that says it won't be -- that it could be later than that. But the rate of deterioration in the profitability of the market is slowing.

A - Geriant Jones

On the size of the margin, it's down to the -- the margin's there for a reason; it's there to deal with volatility and uncertainty in the claims development. So if you see periods of higher volatility, volatility can be material reductions in the best estimates, then it's appropriate to hold a higher margin. If volatility moves further into the past then it might be appropriate to reduce the size of the margin. That's irrespective of where we are in the cycle.

In our view, material falls and ultimate projected loss ratios over the past couple of years represents volatility, and so we see it appropriate right now to hold a higher margin.

Q - Andrew Crean {BIO 16513202 <GO>}

The point I was trying to make is as you set up the current accident year you can set that up -- typically, you've set it up 12, 13 points worse than the ultimate. You can set it up with less of a difference in order to recognize more profitability early, which you might wish to do if you see the cycle is at the bottom and about to improve. You did it last time; is that something that you will consider again?

A - Geriant Jones

I think I'd go back to my first answer, which is it's all about the round, and the size of the margin's there to deal with volatility. And where we book the first year is just all part of where we see the size of the margin. If we think it's appropriate to hold a bigger one then it's likely that we'll hold a bigger margin above the current accident year.

Q - Andrew Crean {BIO 16513202 <GO>}

Okay, thanks.

Q - Ravi Tanna {BIO 16926941 <GO>}

Ravi Tanna, Goldman Sachs. It's just one question, really, following up on telematics. There's a slide in the back of your pack, I think it's 43, which references an uptick in your expense ratio as a result of telematics acquisition expenses. I think you've referenced it already, David, in terms of maybe bearing the cost of that, and I'm just curious to know to what extent do you feel that's likely to persist for yourselves? And to what extent do you feel that's in the market's expense ratio, as it were?

And I guess, connected to that, you referenced the fact that the ability to exploit the upturn in pricing cycle is dependent on your relative position, so I'm just trying to get a sense of the relative expense gap.

A - David Stevens {BIO 6807391 <GO>}

I think it's important on this graph to say that the vast bulk of the movement in the expense ratio is a function of the movement in the premium, and this comment on telematics is just picking up a sensitivity internally of the fact it's gone up GBP1.00. And so, yes, telematics has had an impact on expenses; but look at the pound difference, don't look at the 13% to 15% difference.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Dhruv Gahlaut, HSBC. Three questions. First, the UK home, yes, it's small at this point. But how do you see this developing for you guys over the next 12 to 24 months?

Second, going back to the question on installment income, are you seeing any discussions from the regulator, as in from the FCA, on that point?

Thirdly, on the Confused.com, how confident you guys are in terms of managing the margins, where they were. I think the operating margin was about 25% last year. Thanks.

A - David Stevens {BIO 6807391 <GO>}

Well, if Martin does the Confused one, first; I'll go and ask Henry what the second was, because I was writing down the first. So, Martin?

A - Martin Coriat {BIO 20266744 <GO>}

Confused.com (inaudible) with an increasing margin for 2013, based on the good year we had, as I explained earlier, with a lot of incremental results. It's still a good business to be in. We don't think that in the -- we don't see any change in this operating margin. We just have to grow our top line and try to be as efficient as we are.

Having said that, the competitive market, a lot of things going on; a lot of our competitors are investing. So, we'll how the market develops. It's an industry that change quite rapidly, and can evolve rapidly over the year.

A - David Stevens {BIO 6807391 <GO>}

On household, it is very early days. I think, in terms of prospects, I would say there's a down -- there's something that you should bear in mind, which might dull your enthusiasm, and there's something which might spark it in terms of the long-term prospects.

In terms of dulling it, bear in mind the average premium on this business was roughly GBP200. So if we get, say, 10% penetration of our customer base, which doesn't sound like it's a very ambitious target, but actually cross-selling isn't that easy, that's 300,000 customers at GBP200 is GBP60 million of turnover. And that's not something that's going to happen overnight; that's going to take some years in terms of cross-selling. So, bear in mind the size.

Conversely, it's a 40% expense ratio market, which tends to be profitable, even at 40% expense. So we do see there's an interesting opportunity, if we can function 10 points better than our competitors, to have a relatively low turnover, but relatively high margin business in four or five years' time.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Regulation on installments?

A - David Stevens {BIO 6807391 <GO>}

Regulation on installments, the regulation of installments is transferring to the FCA. And there's work in progress at the moment in terms of understanding, with the ABI interacting with the FCA, exactly how that might change things.

Our hope and expectation isn't that it won't -- our expectation is that it won't change things radically, because there's not really anything particularly wrong in how the car insurance installment sector works. It's not a particularly controversial element of the credit market. But you can't guarantee that the FCA doesn't look at the world in a slightly different way from the previous regulator.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. The first question was about the 10% decline in bodily injury claims inflation. I think you mentioned that a big chunk of it was severity. But when you look at the claims notification forms for the portal it doesn't seem to have been quite so big as that, so I'm just wondering could you give a view as to what your view is? How much is small, and how much is medium, within that?

The second question was there's a couple of things you haven't talked about, which is the FCA review of general insurance add-ons, which we're expecting to find about soon.

And also, you mentioned the GBP5 from the Competition Commission for, presumably, credit hire. But they also were pretty negative about no claims discount protection, so -- and various other things. Could you talk about those as well, please? Thank you.

And the final question was on capital. Sorry. So the rules and[ph] regulator wrote to everyone in May last year, saying we're transitioning to Solvency II, so the capital rules have to change, and some general insurers need to hold more capital. I'm assuming your capital now is driven not necessarily by the IGD rules as they show, or they are driven by them, but only because of the reserve buffer.

If we do see this 13% decline that we're potentially talking about in terms of best estimate loss ratios, does that mean that your capital will switch over to an economic capital basis? And does that stop the special dividend? Thank you.

A - David Stevens {BIO 6807391 <GO>}

Capital, first?

A - Geriant Jones

Capital, first. Our comment in the accounts is, basically, that our view, based on the Solvency II rules as they currently stand, is that our capital surplus in 18 months' time, or 20 months' time, doesn't change materially from its current state. So the answer to the last question is, no, I think.

Q - Andy Hughes {BIO 15036395 <GO>}

Does that stay on the reserve buffer, though? So if you had no reserve buffer, would the answer be different?

A - Geriant Jones

Yes, so the calculation of Solvency II is a more economic basis. It includes an economic view of our balance sheet, which would be a best-estimate basis. So the view of economic capital at that point in time includes that margin, absolutely. But I don't think we're saying, at any point, that we're going to fully release that margin.

A - David Stevens {BIO 6807391 <GO>}

On bodily injury, I think the best way of you analyzing it would be to look at the portal data on new bodily injury claims; I think Direct Line referred to that. And you'll see there's a very close correlation between individual players, frequency, experience, and the market frequent experience. That would give you a pretty robust view of what's happened to frequency on small bodily injury.

And on severity on small bodily injury, essentially, taking GBP500 of legal costs out, and there's probably going to be GBP100 or GBP200 of offsetting compensation increase, so you get some severity as well.

I wouldn't overly analyze the minus 10%. It's a capped number. We could have put an uncapped number in, but it's even more volatile. So it's a combination of good news on small bodily injury claims, and, in that particular year, some good news on the size of medium-sized claims. But it's not really worthily of overly analyzing; it's just saying 2013's an unusually good year, particularly for bodily injury.

Q - Andy Hughes {BIO 15036395 <GO>}

So it's kind of a one-off? You won't expect to repeat?

A - David Stevens {BIO 6807391 <GO>}

I don't see any reason to expect to repeat, unless some[ph] momentum of reforms. Of course, the reforms came in, in April, so there's some benefit in the First Quarter, but beyond that.

On the add-on reviews, it's ongoing. I think I'd refer you to Henry's point about pressures on non-insurance revenue in terms of our being very relaxed about the outcome either way of that. We're not aware of anything that is imminent that would be material otherwise we would have mentioned it in terms of our conversation around prospects.

In terms of protective bonus, it's a very small element of the insurance equation, and it doesn't really have any particularly material impact on the economics of the whole picture, anyway.

Q - Andy Hughes {BIO 15036395 <GO>}

Thank you, very much.

Q - Marcus Barnard {BIO 2103471 <GO>}

Marcus Barnard, Oriel. Can I just ask what trends you're seeing generally in the -- across the book in the UK on claims frequency, and claims severity, just for ordinary non-BI type accidents, because, obviously, we can see your premiums coming down 10%? If we can see your claims frequency coming down 10% we could get some comfort that you're profitably maintained, going forward. Thanks.

A - David Stevens {BIO 6807391 <GO>}

Well, for the market as a whole, a phenomenal frequency drop from 17.5% frequency in 2006 to 12.8% this year; phenomenal. But up from 12.5% last year, so, hopefully, this year -- I mean 2013 versus 2012.

So we may be coming to an end of an amazing period, driven by structural reductions, combined with economic distress. I would expect to see the market frequency, therefore, either stay flat, or maybe even slightly go up. Our own frequency won't be materially different.

In terms of severity, it's a reasonably low inflation environment out there for labor and parts, and things like that. And the big question, as always, is bodily injury, rather than non-bodily injury, really.

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot, Berenberg. Apologies if I missed this in your release, you may have included it. But just on the commutation of the reinsurance agreements that you've done, my memory was that at the half year you did GBP22 million, and I thought you said by doing most up to and including 2011. I see it on your slide 45[ph] here that you're -- that word seems to have been translated into pictures. But I think you've now done GBP40 million for the full year. So I was wondering if you could just clarify what happened in the second half of the year on that?

And then second question, just on the international. You've helpfully, and thank you, given us a combined ratio for the European businesses as a whole. I was wondering if you could give any bigger clue as to whether any of those are close to 100%, or -- yes, that'd be great.

A - Geriant Jones

Well, commutations, firstly, in the second half of the year there were no new commutations. So everything that we commuted during the year happened in the first half.

The P&L impact in the second half is effectively -- the disclosure says that the reserve release is split into two parts. It's the reserve release on the original net part of the account that we underwrote, and it's the reserve release on any part of the business that we've since commuted.

And so the GBP50 million, GBP40 million split is effectively just a continuation of what we saw in the first half. And it's based on the loss ratio changes in the second half, rather than anything sinister going on with commutations, or anything else.

A - Henry Engelhardt {BIO 3022947 <GO>}

As for the international, as you can see, we don't break out the individual countries. But, yes, we are getting close.

Q - Peter Eliot {BIO 7556214 <GO>}

Anywhere in particular?

A - Henry Engelhardt {BIO 3022947 <GO>}

Sorry?

Q - Peter Eliot {BIO 7556214 <GO>}

Anywhere in particular?

A - Henry Engelhardt {BIO 3022947 <GO>}

Yes, one place in particular. And it's not France.

Anybody on the phone? Any questions? No? Well, there we go. Any further questions, comments, or[ph] remarks? Thank you, very much. See you shortly.